Lisbon Agenda

Integrated Guidelines for Growth and Jobs

Ireland

Implementation of National Reform Programme

Progress Report
October 2006

Contents

1 Summary

1.1 Introduction

The National Reform Programme (NRP) produced in October last 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, focusing particularly on growth and jobs, over the period to 2008.

As set out in the NRP, these measures should be considered in the overall context of the Agreed Programme for Government, which stresses also the importance of achieving social equity and ensuring environmentally sustainable development as inter-related goals in securing improved quality of life and living standards for all. These are also considered to be important aspects of the overall Lisbon Strategy. In this regard, the Government will seek to ensure synergy in its policies and progress reporting across the full policy spectrum, including the NAPSinc reporting process.

1.2 High Level Progress Indicators

Since the production of the NRP, the economy has continued to perform strongly, with GDP growth of 5.5% in 2005. The short- to medium-term outlook also remains favourable – over the period 2006-2009, the economy is likely to grow broadly in line with its assumed potential growth rate of between 4.5 and 5%. This strong economic performance is mirrored in employment growth of 4.6% in the year to date. Employment now stands at 2,017,000 which corresponds to an employment rate of 68.1%, and unemployment remains low, at 4.3%. The labour force continued to grow and in the second quarter of 2006 stood at 2,108,300, an increase of 93,500 (4.6%) in the year.

1.3 Overall Strategic Approach

Overall, the strategy being pursued seeks to sustain and, where possible, improve on the strong performance of recent years. Ireland's population is growing rapidly, with significant further growth projected for coming years. The Government, working with the social partners, remains committed to pursuing improved quality of life and living standards for all and, to this end, recognises the interdependence of social equity and sustainable development with economic growth and improved employment opportunities.

Competitiveness remains a key objective, particularly for a small, open economy in an increasingly globalised marketplace. Ireland believes that globalisation represents both opportunities and challenges which can be best dealt with by a strong Europe and through full implementation of the Lisbon agenda.

Ireland remains committed to the Lisbon Agenda goals. Notwithstanding the continuing relatively strong performance of the economy and the positive employment levels, many important developments took place during the past 12 months, which will help to sustain this performance.

1.4 Social Partnership

A new social partnership agreement, *Towards 2016*, was negotiated with the social partners in 2006. This is the seventh successive social partnership agreement. As the title suggests, this agreement provides, for the first time, a ten-year framework for overall economic and social progress. The agreement recognises that economic policy and social provision can be mutually reinforcing and complementary over this ten-year period. It also contains many shorter-term measures and commitments, including a 27-month pay agreement.

It was agreed in 2004 that Ireland's social partnership process should serve as the Irish National Reform Partnership under the Lisbon Agenda, and this was evident in the negotiations on the new agreement. The goals of the Lisbon Agenda are closely mirrored by the aims and objectives of the social partnership process in Ireland, not least in terms of economic growth and job creation. Consequently, the many elements of the new partnership agreement, across the full policy spectrum, represent very significant and meaningful progress aligned with, and contributing to, achievement of the Lisbon goals. *Towards 2016* explicitly references the NRP process. Furthermore, this approach builds on existing, well tested, institutional arrangements of stakeholder engagement in Ireland.

1.5 Key Policy Areas

A number of other significant developments have taken place since the NRP was published, many of which respond to the key issues identified at the Spring European Council and/or highlighted following publication of Ireland's NRP.

Firstly, preparation of a new National Development Plan (2007 – 2013) is now well advanced. This will set out a strategy and objectives and planned public investment for the next seven years to promote sustainable growth, economic and social development and national competitiveness.

Continuing to tackle the physical infrastructure deficit remains a major priority and this will be reflected in the new NDP. Furthermore, *Transport 21* – a massive 10-year framework for transport investment – was launched in November 2005. It involves investment of €34 billion in current prices in the 10-year period 2006 to 2015, covering both roads and public transport infrastructure.

In June 2006 the Government published its new *Strategy for Science, Technology and Innovation 2006-2013*. This strategy, which will be part-funded under the new NDP, represents a substantial reinforcement of the Government's commitment to R&D as a key driver of future economic growth. The strategy will lead to significantly increased public investment in R&D, increased business expenditure on R&D and a doubling of Ireland's output of PhDs.

Under the new social partnership agreement *Towards 2016*, the Government has committed itself to the publication of a Green Paper on Pensions Policy. This Paper will outline the major policy choices and challenges facing Ireland's pension system going forward and will ultimately lead to a framework for comprehensively addressing the longer term pensions agenda.

Under *Towards 2016,* the Government and the social partners agreed to continue to work together over a ten-year period to develop an infrastructure to provide quality, affordable childcare and to work towards increasing the supply of childcare places (of all types) by 100,000 over this period. This will build on a new 5-year National Childcare Investment Programme introduced in Budget 2006, bringing together the areas of child welfare and protection, childcare, early years education, youth justice and the national children's strategy.

A Green Paper on Energy Policy was published on 1 October 2006, recognizing the importance of energy policy in overall economic and social development.

These and many other new initiatives and developments are covered in this progress report, most of which have been the subject of detailed engagement with the social partners in the context of the negotiations on the new social partnership agreement.

1.6 Linkages with Social Policy

Towards 2016 sets a shared overall goal to realise a new vision for Irish society by:

- Nurturing the complementary relationship between social policy and economic prosperity;
- Developing a vibrant, knowledge-based economy and stimulating enterprise and productivity;
- Re-inventing and repositioning Ireland's social policies;
- Integrating an island-of-Ireland economy; and
- Deepening capabilities, achieving higher social and economic participation rates and more successfully handling diversity including immigration.

The preparation of Ireland's next NAP inclusion and the National Development Plan 2007-2013, due for completion later this year (2006), are being aligned on the basis of the strategic approach for social inclusion in *Towards 2016*. This partnership agreement maps out a new, lifecycle framework approach to the development and delivery of social policy, services and supports, across four discrete stages or categories, covering children, people of working age, older people and people with disabilities. This approach adopts the perspective of the person as the centrepiece of social policy development. The lifecycle framework is a key part of the this strategic approach and is designed to facilitate monitoring and reporting on progress, in relation to the broad range of relevant government policies, that is more streamlined and outcome focused. The strategic approach is also designed to facilitate greater integration of social and economic strategies, with a view to achieving better social and economic outcomes, particularly in the area of social inclusion, over the period to 2013. Ireland also recently submitted its first National Report on Strategies for Social Protection and Social Inclusion (NSSPI) to the EU building on the lifecycle framework set out in *Towards 2016*.

1.7 Cohesion

The National Development Plan and Community Support Framework 2000-2006 were framed after an extensive consultation process that included Social Partners and regional interests. The objectives underpinning the Plan are focused on continuing sustainable national economic and employment growth, consolidating and improving Ireland's international competitiveness, fostering balanced Regional Development and promoting Social Inclusion. The objectives of the Plan are closely aligned to the Lisbon Agenda.

Cohesion policy for 2007 to 2013 is also explicitly linked with the National Reform Programme as an instrument for promoting the sustainable and balanced growth across the European Union. Ireland's National Strategic Reference Framework will reflect the overall goals of the Lisbon Agenda and Ireland's National Reform Programme. The NSRF will build on the aims of *Towards 2016* and will have a strong focus on competitiveness and supporting and enabling dynamic Regions. Under the new legislative requirements, 75% of expenditure over the period is to be on actions that support and promote the Lisbon Agenda.

1.8 North-South Cooperation

A significant aspect of the NRP is the common contribution by the British and Irish Governments regarding improved co-operation within Ireland, North and South. Considerable progress has been made on this over the past twelve months across a number of areas, including examining the potential of an all-island economy, developing a joint approach to infrastructure delivery and working closely on particular issues in the north west of the island. This is reported on by both Governments in a further common contribution, which is included in this progress report (see Annex 1).

A comprehensive study on the opportunities for further practical cooperation on the development of a competitive and prosperous all-island economy is currently nearing completion. Building on the Lisbon Common Contribution, the two Governments have already agreed to co-operate and pool resources in trade promotion, as well as pursuing all-island approaches to labour market skills forecasting; to international collaboration in science and technology; and to business development through knowledge exchange by developing networks and clusters.

Other key developments include agreement on a new Northwest Gateway Initiative in order to maximise the potential of the North-West of the island through close co-operation; agreement on collaborative action involving the two spatial planning strategies on the island; and ongoing progress towards creation of the Single Electricity Market expected to be operational by November 2007.

2 Macroeconomic Policy Objectives

> The current economic background is broadly favourable and it is likely that there will continue to be strong growth in employment over the medium term… There are currently a number of significant risks domestically and internationally: for example the housing market is vulnerable to a downturn and the US current account deficit is a risk. A sudden correction of this deficit could be associated with a sharp depreciation of the dollar and a large rise in US interest rates, leading in turn to a US and global recession.
>
> This agreement is based on the judgement that, on balance, there will be a continuation of strong growth in the Irish economy in the coming years. However these risks and challenges cannot be ignored and the possibility of more adverse economic conditions needs to be seriously taken into account. Therefore this Agreement has been drawn up with an objective of mitigating these risks and strengthening the competitiveness and productive capacity of the economy.
>
> ***-Towards 2016***

2.1 Overview

The Irish economy continues to experience solid growth, with GDP growth of 5.5% last year. However, growth was somewhat unbalanced with a negative contribution from net exports. On a sectoral basis, growth was mainly driven by higher output in construction – particularly residential construction – and services. Reflecting the labour-intensive nature of these sectors, employment rose strongly last year, with total employment rising by 4.7%. The corollary of this sectoral composition of output growth was a reduced growth rate for labour productivity performance.

The short- to medium-term outlook for the Irish economy remains broadly favourable, with growth likely to evolve broadly in line with the economy's potential growth rate. Conditions in the labour market are likely to remain healthy, with further strong employment growth likely. Reflecting the strong demand for labour, part of the increase in employment is likely to be accounted for by increased employment of non-nationals, who now account for 10% of the labour force. The unemployment rate is projected to remain broadly stable at close to its current rate which is amongst the lowest in the EU.

The public finances remain in a healthy position with a general government surplus of 1.0% of GDP projected for 2006, while the ratio of debt to GDP has fallen steadily to 27.4% at end-2005 and is expected to fall further to 25.6% at end-2006. This is one of the lowest levels of debt in the EU. The strong fiscal performance must also be seen in the context of relatively high capital spending, with the Government spending around 5% of GNP per annum on adding to the stock of public infrastructure. On the downside, the inflation performance has deteriorated in recent months. On a harmonized basis, inflation averaged 2.8% in the first half of the year, nearly ½ percentage point higher than the equivalent for the euro area.

While the outlook is favourable, there are nevertheless a number of key external and internal risks. In particular, a small globally-integrated economy such as Ireland would not be immune from a deterioration in the international economic climate. In addition, high oil prices and rising interest rates may have some restraining effect on demand in the near term. Domestically, the exposure of the economy to the construction sector – which currently accounts for one-in-eight workers in the economy – given the current very high level of housing output is a risk, as is the potential for a further loss in competitiveness.

2.2 Stability

Guideline 1: Guarantee the economic stability for sustainable growth

In keeping with the Government's commitment to maintaining a stable macroeconomic environment and sustainable public finances, Ireland continues to adhere to the close-to-balance requirements of the Stability and Growth Pact through prudent budgetary planning. The general government balance has been in surplus every year since 1997 with the exception of 2002, and at 27.4% of GDP at end-2005, the debt ratio is at a relatively low level.

This has facilitated the maintenance of a low burden of taxation, the protection of competitiveness and the maximisation of Ireland's economic potential. This is evidenced by the success of the Irish economy which continued to perform strongly in 2005 - growth is estimated at 5.3% in GNP terms. This is set to continue in the period 2006 to 2009, with average GNP growth per annum forecast to be broadly in line with the Irish economy's assumed potential growth rate of between 4.5% and 5%.

Employment growth has been very strong in recent years and led to Ireland having an unemployment rate of 4.3% in 2005. The employment rate amongst 15-64 year olds was 67.6% in 2005. Ireland has an open labour market policy, attracting considerable inward migration from other EU member states, which has contributed to restraining wage and inflationary pressures in an economy at what many regard as at or near full employment.

In 2005 Irish inflation was equal to inflation in the EU which was 2.2%. However in 2006 Irish inflation has diverged upwards from the EU average. The Government is committed to pro-competition policies to address the issue of rising inflation. For example in March 2006 the Groceries Order, a ban on below-cost selling by retailers, was abolished. This should promote price competition and contribute to a moderation of price increases.

Furthermore, since the submission of Ireland's National Reform Programme last year, the Government has continued to address our remaining infrastructural deficit. This is seen as essential to secure economic stability and support 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 2006-09, considerably in excess of the EU average. In 2005 public capital investment was about 6.3% of GNP.

2.3 Sustainability

Guideline 2: Safeguard economic and budgetary sustainability, a prerequisite for more jobs

As evidenced by the wide range of policies and initiatives set out in Ireland's National Reform Programme 2005-2008, the importance of safeguarding economic sustainability has become embedded in the Irish policy making process. Moreover, in tandem with ensuring that the economy will be in a position to meet the significant challenges posed by population ageing, Government strategy is also geared towards maintaining the welfare and living standards of older members of society into the future. To this end, current policies are designed to take into account both long-term spending pressures and welfare consequences. In addition, the Irish Government remains committed to prudent budgetary planning, maintaining a low debt burden (Ireland's debt to GDP ratio at end-2006 is forecast to be 25.6%), and improving employment and labour force participation rates so as to support the economy's longer term growth potential.

Since the submission of Ireland's National Reform Programme last October, the measures put forward at that time have been further progressed and a number of new initiatives have been announced. An overview of the current position vis-à-vis implementation is provided below.

- Partial pre-funding of future social welfare and public service pension costs has continued with the payment of a statutory contribution of 1% of GNP into the National Pensions

Reserve Fund. The value of the Fund at end-June 2006 was €16,346 million or approximately 11% of GNP.

- Work in respect of public service pension reforms was progressed further during the year with a view to bringing additional measures before Government in due course.
- In January 2006, the National Pensions Review which included, inter alia, a review of current coverage and adequacy, an examination of alternatives to the existing system and recommendations for consideration by Government, was published. On foot of the Review, the Minister for Social and Family Affairs requested the Pensions Board to carry out a technical examination of the practical issues associated with a mandatory pension system. The resultant report 'Special Savings for Retirement' was published in August 2006.
- Under the new social partnership agreement Towards 2016, the Government has committed itself to the publication of a Green Paper on Pensions Policy. This Paper will outline the major policy choices and challenges facing Ireland's pension system going forward, having considered the views of the social partners and other stakeholders. The Government is committed to responding to the consultations on foot of the Green Paper's publication within twelve months of the ratification of Towards 2016 by developing a framework for comprehensively addressing the pensions agenda over the longer-term.
- In addition to Personal Retirement Savings Accounts and the tax incentives to encourage private pension provision which are already in place, the Finance Act 2006 contained a new incentive scheme to encourage individuals on low incomes to invest money from their Special Savings Incentive Accounts (SSIAs) into pensions. Further incentives for individuals who have under-funded their pensions in the past, but wish to improve their position as they near retirement, were also announced.
- Reflecting the Government's commitment to increasing State social welfare pensions to €200 per week by 2007, State old age pension rates were further increased in 2006 and now stand at €193.30 for the State Pension (Contributory, maximum rate) and €182.00 for the State Pension (Non-Contributory).
- With respect to follow up work on the future financing of long-term care, an Interdepartmental Group of senior officials was jointly established by the Tánaiste and Minister for Health and Children and the Minister for Social and Family Affairs. On the basis of work carried out by this group, and in line with the principles agreed with the social partners under *Towards 2016*, proposals for consideration by Government are in the process of development.
- The introduction of an Early Childcare Supplement and a new National Childcare Investment Programme to help create an extra 50,000 childcare places over the period 2006-2010, was announced in Budget 2006. These measures follow from the Government's commitment to limiting cost pressures and increasing the number of facilities available to parents so as to support female labour force participation. *Towards 2016* envisages building on these measures and contains further important commitments in this area.

2.4 Resource Allocation

Guideline 3: Promote an efficient allocation of resources, which is geared to growth and jobs

Ongoing Measures

Ireland's National Reform Programme identified a number of measures to the promote efficient allocation of resources:

- Continuation of the 5-year rolling multi-annual capital envelopes for public investment with their 10% carryover facility
- Introduction of a 10-year capital envelope for transport because of the importance of addressing Ireland's infrastructural deficit in transport
- Further improvement in the arrangements for the appraisal and management of capital programmes and projects
- Reforms to public procurement arrangements for construction projects
- Publication of a new National Development Plan for 2007-2013

New measures introduced in addition to those set out in the National Reform Programme, include:

- Additional Value for Money measures in relation to the management of major capital projects, ICT projects and consultancies were announced in October 2005 building on the revised capital appraisal guidelines published in February, 2005.
- The replacement in June 2006 of the Expenditure Review Initiative with Value for Money Policy Reviews designed to secure better value for money from public expenditure and greater accountability in this regard.
- Publication of a new Strategy for Science, Technology and Innovation 2006-2013.
- A reform was announced in Budget 2006 of the Estimates and Budgetary process which will see the presentation from 2007 by Ministers of an annual outputs statement to parliamentary committees to facilitate their consideration of the annual estimates for public expenditure.

Progress to date

- The 2006-2010 capital envelopes provide for investment of €43.5 billion and maintain public capital investment at or close to 5% of GNP in the period.
- *Transport 21* a major investment programme for transport infrastructure was announced in November 2005. It provides for investment of some €34 billion and will be implemented through the rolling multi-annual capital envelopes.
- The Planning and Development (Strategic Infrastructure) Act 2006 was adopted which, among other things, will provide a mechanism to accelerate planning decisions on relevant major infrastructure projects. The legislation will facilitate An Bord Pleanála, in essence, becoming a one-stop shop for planning decisions on strategic infrastructure developments. A parallel initiative is underway by the President of the High Court to provide greater efficiencies in the handling of judicial review cases by the High Court.
- Following consultation with industry interests on the new public procurement arrangements for construction contracts generally the new contracts will be implemented by all agencies from the start of 2007. Training for the relevant officials on implementation of the new contracts is due to begin in autumn 2006.
- The revised Value for Money measures for major capital projects, ICT projects and consultancies are being implemented by all Departments and Agencies. They include provision, amongst other things, for fixed priced contracts as the norm, no extension of service contracts without tendering if the extension is more than 50% of the original contract or exceeds €250,000, full cost benefit analysis of capital projects over €30 million, audit of these major capital projects, the appointment of an individual as project manager for major capital and ICT projects and peer review of major ICT projects.
- Some 90 Value for Money Reviews have been approved by Government. They will have to be completed by Departments and Offices by set deadlines in the period 2006 to 2008. The topics for review focus on significant areas of expenditure and major policy issues and, as a general rule, have an indicative minimum coverage of 10-15% of each Department's and Office's 2005 Budget. The completed reviews will be published and submitted to the relevant parliamentary select committee for consideration.
- Departments are in the process of preparing their first annual outputs statement to be presented in tandem with their estimates of expenditure from 2007 onwards.
- Investment under the Strategy for Science, Technology and Innovation 2006-2013 will be provided for in a new National Development Plan.
- Following consultation with Government Departments, the Social Partners, Regional and other interests the preparation and drafting of the new National Development Plan for 2007-2013 is advancing.

Expected results from these measures:

- There is more efficient and effective management of capital programmes and projects as a result of greater medium-term budget certainty under the capital envelopes.
- The revised capital appraisal guidelines are resulting in better management of capital programmes and projects and more rigorous selection of projects.
- The new value for money measures complement the revised capital appraisal guidelines and provide for more effective and efficient management of capital programmes and project, ICT projects and consultancies generally.

- The move to fixed price contracts will result in a shifting of risk, greater cost certainty, value for money and cost effective delivery of public capital projects.
- The new VFM Policy Reviews will also strengthen the arrangements for securing better value for money and improve decision making in regard to the allocation and prioritisation of expenditure.
- Reform of the Estimates and Budget Process will increase Departments' and Agencies' accountability to the Oireachtas (parliament) and the taxpayer in regard to the prioritisation and allocation of public expenditure.
- Under *Transport 21* the transport system in Ireland will be developed over the period 2006 to 2015. The twin challenges of past investment backlogs and continuing growth in transport demand will be addressed to increase accessibility, ensure sustainability, expand capacity, increase use and enhance quality.
- The *Strategy for Science, Technology and Innovation 2006-2013* will, among other things, lead to increased investment in R&D, increased business expenditure on R&D and a doubling in Ireland's output of PhDs.
- The new National Development Plan will set out a strategy and objectives and planned investment for the next seven years to promote sustainable growth, economic and social development and national competitiveness.

2.5 Wage Developments

Guideline 4: Ensure that the development of salaries contributes to macroeconomic stability and growth

The Government is committed to ensuring that wage developments contribute to macroeconomic stability, growth and increased adaptability. In this regard, a number of reform measures have been initiated. Key principles of the Social Partnership Framework involve working to restore and improve Ireland's competitiveness, increasing productivity and employment, and maintaining low inflation. The *Towards 2016* Agreement outlines a 10% pay increase staged as follows over a 27-month period and provides that no further claims for increases, other than those outlined in the Agreement, will be made during the period of the Agreement:

- An increase of 3% of basic pay for the first 6 months of the Agreement in the Private Sector;
- An increase of 2% of basic pay for the subsequent 9 months of the Agreement (for those employees who earn €10.25 per hour or less, a 2.5% increase will apply);
- A further rise of 2.5% of basic pay for the following 6 months;
- An additional increase of 2.5% of basic pay for the final 6 months.

Where agreement between employers and unions on matters covered by *Towards 2016* cannot be reached through local discussion, disputes can be referred to the Labour Relations Commission, and subsequently, if unresolved, to the Labour Court or, where appropriate, to other agreed machinery.

All parties have agreed to reconstitute the Anti-Inflation Group established under the last Partnership Agreement (Sustaining Progress), which provides a forum for co-operation and coordination in combating inflation.

The *Towards 2016* pay increases will also apply in the Public Service. However, in the Public Service the first phase is not due to be paid until 1 December 2006. In addition, the Government and the unions have adopted the benchmarking system which allows for periodic measurement of pay rates of public service jobs against pay rates for similar jobs in the private sector. A new benchmarking exercise is currently underway, with the Body due to report back in the second half of 2007. A crucial aspect of any public service pay increase is the linkage of payment to the delivery of verifiable, specific change under a modernisation programme and the maintenance of industrial peace.

Irish income tax policy continues to focus on a 'making work pay' approach. The income tax threshold was raised in Budget 2006 to ensure that those earning the minimum wage remain out of the tax net after the hourly rate of pay was increased in May 2005, thus reinforcing the incentive for those on lower incomes to engage in employments. In addition, the standard rate income tax band was increased by €2,600 per annum, removing 90,000 tax-payers from the higher tax rate.

Further information is provided in Section 4 on Employment Guidelines.

2.6 Policy Coherence

Guideline 5: Strengthen the consistency of macroeconomic, structural and employment policies

In recent years, Ireland has benefited from a steady process of ongoing structural reform across product, capital and labour markets. The wide range of policies pursued in this respect has sought to promote competitiveness and support the economy's long-term growth potential by means of increasing its flexibility, mobility and adjustment capacity. While these measures have served the macro-economy well to date, the need for additional reforms in certain sectors is also recognised. As such, the implementation of Ireland's structural reform agenda has proceeded further over the past year, with the following steps taken since the submission of our National Reform Programme last October:

- Reflecting the Government's commitment to strengthening the infrastructural base so as to underpin competitiveness into the future, 'Transport 21' - a major investment programme for transport infrastructure - was announced in November 2005.
- Continuing emphasis has been placed on increasing competition in sectors such as retail distribution and the professions. To this end, the Competition Authority issued a preliminary report on competition in the dental profession in December 2005 and also finalised its examination into the non-investment banking sector. In addition, final reports and recommendations on the architectural and optometry professions were published in 2006. The Minister for Enterprise, Trade and Employment announced the repeal of the Restrictive Practices (Groceries) Order 1987 in November 2005.
- In June 2006, further investment in knowledge and innovation was provided for within the framework of the new 'Strategy for Science, Technology and Innovation 2006-2013'. The funding provisions for R&D research set out under the 'National Development Plan 2000-2006' and the R&D tax credits introduced in 2004 have continued.
- A Green Paper on Energy Policy was published on 1 October 2006 setting out a strategic framework of proposed options and directions for Energy Policy to 2020. A number of structural reforms have been advanced in this wider context. All customers are now eligible to source electricity from any supplier licensed by the Commission for Energy Regulation, while independent Transmissions System Operator 'EirGrid' was established in July 2006 to assist in the development of a competitive electricity market. In addition, the gas market has been opened up to competition for non-domestic consumers. Legislation to facilitate full opening of this market is expected to be approved in 2006, significantly ahead of the 2007 deadline set by the EU.
- With regard to public sector reform, the drive towards value for money is ongoing while the latest social partnership agreement *Towards 2016* continues the trend of making increases in public sector pay conditional on continuing co-operation, flexibility and on the satisfactory implementation of the modernisation agenda. Moreover, the importance accredited to maintaining competitiveness going forward is reflected in the private sector pay provisions set out in the new agreement, and also, in the social partners willingness to reconstitute the 'Anti-Inflation Group' as a forum for combating inflation.
- In terms of the labour market, additional measures to encourage participation were brought forward over the course of the year. These included a rise in the income tax threshold to ensure that those earning the minimum wage remained outside the tax net and an increase in the band for the standard rate of income tax. A range of measures to improve childcare were introduced in Budget 2006 and in *Towards 2016*, which are expected to assist with increasing labour market participation. (This is covered in more detail in Section 4.4.)
- Finally, the integration of Irish capital markets with those of the EU has continued, aided by Ireland's membership of the single currency.

2.7 EMU

Guideline 6: Contribute to the dynamism and smooth operation of EMU

Ireland continues to be a strong performer in relation to the Stability and Growth Pact (SGP). The Council Opinion on the 2005 Stability Programme described the budgetary position as sound and the budgetary strategy as a good example of fiscal policies conducted in compliance with the SGP.

Ireland is already achieving its medium term budgetary objective of *close to balance* while accommodating a high level of public investment. This is necessary to address the infrastructure needs of the economy and support the growth and employment objectives set out in Ireland's NRP. Indeed, if public investment in Ireland were at the EU average level, the General Government Balance would improve by about 1.5% of GDP.

Given very strong revenue performance, we are currently projecting a general government surplus of 1.0% of GDP in 2006.

3 Structural and Market Reforms (Microeconomic Guidelines)

The approach to Enterprise, Innovation and Productivity within this ten-year framework agreement is informed by the following underlying principles:

- Building on successful adoption and operation of advanced technologies to achieve greater innovation in products, processes and organisation both to improve productivity and improve service delivery;
- Strengthening the competitive advantages of our economic and industrial base and promoting a more entrepreneurial culture;
- Improving investment in human capital and adapting the education and training systems, including emphasis on upskilling those already at work and those who wish to return to work, including older people, and those whose need for learning is greatest, and focusing on increasing education participation and completion at all levels and in all sectors;
- Creating a more competitive business environment and encouraging private and enterprise initiative through better regulation, greater competition and stronger consumer protection and advocacy;
- Developing and broadening innovation and productivity to include an organisational culture which will enable the delivery of high quality services in the private, public, community and voluntary sectors;
- Adapting more responsively to changes needed to maintain high levels of employment;
- Maintaining a strong focus on attracting inward investment while supporting the development of the services sector, with particular emphasis on the indigenous sector, as a driver of exports.

-Towards 2016

3.1 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.

A high-level group was established in Ireland in 2004 to determine the implications of policy initiatives at European level for Ireland and to identify actions required at national level to achieve the goals of the Lisbon Agenda. The group's report[1] to the Inter Departmental Committee for Science, Technology and Innovation formed Ireland's R&D Action Plan. It was the precursor to the recently launched (18June 2006) pivotal Strategy for Science, Technology and Innovation (SSTI)[2], which provides the blueprint for Ireland's continuing transformation into a knowledge economy. It is discussed in more detail below.

3.1.1 The National R&D System: update on performance

In 2004, gross expenditure on R&D (GERD) in Ireland increased from 1.35% of GNP (2002) to 1.43%. In financial terms, it stood at €1.78bn and is estimated to be €1.9b for 2005.

Within GERD, business expenditure on R&D (BERD) increased to €1,150m in 2004, an increase of 16.3%. Given the high rates of Irish GNP growth, it remained unchanged in relative terms at 0.93% of GNP.

---

1 *Building Ireland's Knowledge Economy: the Irish Action Plan for Promoting Investment in R&D to 2010* (2004)

2 *Strategy for Science, Technology and Innovation 2006-2013*
http://www.entemp.ie/science/technology/sciencestrategy.htm

Industry financed 64% of GERD in 2004 (meeting the Barcelona target for two-thirds of R&D investment to come from enterprise); the public sector (including the EU) covered 34.4%, while the remainder came from other sources.

In the same year, expenditure on R&D in the higher education sector (HERD) continued its steady upward trend to €492m, up 0.1% of GNP on 2002 to 0.4% of GNP. R&D activities performed by universities in the same period increased by 61% to €461m while the institutes' of technology share climbed 20% to reach €30m.

R&D expenditure by the public research sector (excluding higher education institutions, e.g. Teagasc, the Marine Institute) increased by nearly 11% between 2002 and 2004 to €138m, bringing it to 0.11% of GNP. In terms of researchers (FTE) per 1,000 total employment, numbers grew from 5.3 to 5.7 between 2002 and 2004. The EU-25 average for the same period was 5.8. Most R&D personnel (researchers plus support staff) were employed in business (61%), with 31% in the third level sector (showing a large increase on 2002) and 8% in the public sector.

3.1.2 2006 Update on Policy Developments

While the increases noted above provide Ireland with a strengthening research base on which to build, the Government has recognised that it is vital for Ireland's long-term national economic success to continue to promote greater investment in R&D. The key challenges will be to accelerate the positive trend in business R&D performance and to continue consistent investment in publicly-funded R&D.

In line with this and as set out in the National Reform Programme in 2005, the Irish Government completed the preparation of and published its Strategy for Science, Technology and Innovation 2006-2013 (SSTI) in June 2006. The SSTI represents a further step-change in national support for R&D and innovation with €8.75bn in investment over the period (increased from €2.5bn in the current funding period of 2000-2006 and €0.5bn in the period 1994-1999). It is a "whole of Government" strategy and Government backing was demonstrated in the co-operation across eight Government Departments in the formulation and now in the implementation of the SSTI.

The SSTI, which has been informed by our engagement in the EU's OMC process, sets out initiatives for Ireland in the context of the Lisbon and Barcelona objectives in the following areas:

1) Strengthening the higher education research base
2) Capturing, protecting and commercialising ideas and know-how
3) R&D in enterprise
4) Science, education and society
5) Sectoral research
6) All-island and international R&D
7) Policy oversight and review

Within these, specific actions will be taken to address the challenges identified in Ireland's 2005 NRP, namely:

- Strengthening the public research base
- University reform
- Researcher careers
- Research commercialisation
- Enhanced public support mechanisms for enterprise R&D
- Technology transfer from foreign sources
- Mobile enterprise R&D
- Links between the science base and enterprise
- Food research
- International research policy and linkages
- Policy oversight and review

3.1.3 Fiscal Measures to leverage private R & D

The 20% tax credit introduced in Budget 2004 is being monitored to ensure that it is supporting the SSTI targets as effectively as possible.

Annex 2 contains details of the range of initiatives set out for Ireland in the SSTI in the context of the Lisbon and Barcelona objectives.

3.1.4 Starting up and Scaling up – Access to Finance

Ireland's national agency for enterprise support, Enterprise Ireland, supported 75 new high potential start-up companies in 2005.

Under the new Seed and Venture Capital Fund Scheme EI committed c. €98 million, covering 14 funds, towards venture capital for SMEs in Ireland, leveraging in the region of €400 million in additional funding.

Enterprise Ireland engaged independent consultants to undertake a study examining how the seed and venture capital market in Ireland could be further developed and Enterprise Ireland's role in this regard.

Following the completion of the report and in the context of its findings, the Minister for Enterprise, Trade and Employment announced a new round of Venture Capital Funding, for the period 2007 – 2013, totalling €175 million, which will leverage an estimated €1bn for investment in start-up, early stage and development stage businesses.

In January 2006 the Minister for Enterprise, Trade and Employment announced the extension of the EI Community Enterprise Centre (CEC) Scheme which will provide €7m of Capital funding in the period 2006 – 2008. In June 2006 it was announced that, under this competitive scheme, 24 CEC projects were successful in their applications for funding.

3.2 Knowledge Society and eGovernment Policy

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

A Knowledge Society Action Plan is being prepared at present and will be published by the end of 2006. This will build upon the advances made and the outcomes achieved by the two previous National Action Plans while recognising the ubiquity of technology, the need to use technology as a tool in the drive towards Knowledge Economy activities and the need to provide for greater inclusiveness. It will be in line with the EU i2010 Initiative, 'An European Information Society for Growth and Employment', and will provide for the continued exploitation of ICTs by all; including government, businesses, public sector and the community and voluntary sector. It will include specific actions on awareness of, access to, and application and greater exploitation of ICTs with a view to stimulating and encouraging greater engagement with and participation in the Knowledge Society.

3.2.1 Learning Society Foresight

An initiative is underway to scope out policy guidelines for creating the conditions to enable a society that supports a knowledge-based economy in terms of quality of life, environmentally conducive conditions and support for creativity from early education in a life-long paradigm of continuous learning and skilling.

3.2.2 eInclusion

On connectivity, the percentage of households with home computers increased to 55% in 2005 from 46% in 2004. 82% of households with computers are connected to the Internet and overall 45% of all households had a connection to the Internet. €1.5m has been provided in 2006 for initiatives that support the participation of late adopters in an inclusive Information Society under the Access, Skills and Content (ASC) Initiative. In 2005 a fund of €1.025m supported a total of 49 projects primarily targeted at older people and people with disabilities. These projects increased awareness and relevance of ICTs through the availability of relevant content and promoted ICT skills development.

In addition, a programme of grants was set up for local Community and Voluntary groups to provide IT equipment and IT training.

3.2.3 ICT in Schools

Under the Broadband to Schools Programme (a joint Government/Industry initiative), the Government and Industry agreed a joint €18 million program to resource the provision of high speed broadband connectivity to all primary and post primary schools in the country by 2006.

3.2.4 eBusiness Strategy

A detailed progress report on the implementation of the National eBusiness Strategy[3] was prepared in April 2006. The report outlines progress to date against the thirteen recommendations identified in the National eBusiness Strategy, and has highlighted areas for continued focus and effort going forward. Overall nine of the 13 recommendations have been addressed comprehensively to date.

The recommendations and progress achieved to date cover the following areas:

- Legal and regulatory framework
- Development Agency supports
- ICT Management and User Skills
- Information channels for SMEs
- EProcurement
- Benchmarking and Statistics

A practical guide to eBusiness Law, which was produced by Enterprise Ireland on the recommendation of the Working Group, was published in December 2005. In addition to outlining progress on the implementation of the Strategy, the report contains valuable information on ICT training courses provided by the various state agencies and educational establishments.

Work on the remaining recommendations is continuing throughout 2006.

3.2.5 High Speed Connectivity

There was growth of almost 120,000 broadband subscribers, or 90%, during 2005. This strong growth is based in both the SME and residential markets. A target of 400,000 subscribers by end-2006 is expected to be surpassed. The policy focus is on increasing competition on the supply-side of the broadband market for the benefit of the consumer including promoting increased choice of supplier and product for consumers, removing barriers to market entry, and addressing market failure in infrastructure provision through various regulatory and investment interventions.

3.2.6 Broadband Action Plan

The Department of Communications, Marine and Natural Resources (DCMNR's) regional broadband programme is addressing the infrastructure deficit by building high-speed open access broadband networks, in association with the local and regional authorities. Twenty-seven Metropolitan Area Networks have been completed under Phase One of the MANs Programme. The completed networks are being managed independently for the State, by e-net, the Management Services Entity, and offer wholesale open access to all service providers. Under Phase Two, the Programme has been extended to over 90 towns in various locations nationwide. It is expected that these MANs will be completed during 2006 and 2007.

The Group Broadband Scheme offers small towns and rural communities of less than 1500 people the chance to come together with service providers and obtain broadband connectivity for their areas with funding assistance from the Government. The scheme is co-funded under the NDP 2000-2006 by the E-Commerce and Communications measure of the BMW and S&E Regional Operational Programmes. Under this scheme a total of 162 projects have been approved. A total of €5,890,000 was approved in grant aid for these projects, covering over 575 communities with a combined population of over 420,000.

---

[3] http://www.entemp.ie/enterprise/support/ebusinessstrategy.htm

3.3 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

3.3.1 Enterprise Strategy Group

Following publication of the most recent and comprehensive review of enterprise policy,[4] the Minister for Enterprise, Trade and Employment set up the Enterprise Advisory Group[5] to advise on progress in achieving the Government's Action Plan for new enterprise centred policies. This Group of senior enterprise executives is a new institutional arrangement to help respond to the strategic needs of business, to emphasise the evolving enterprise agenda in policymaking and above all to inform the Minister for Enterprise, Trade and Employment on progress in attaining the policy milestones set out in the Enterprise Strategy Group (ESG) Action Plan. In addition to measures cited elsewhere in this report, among the key measures that have been taken on foot of the Action Plan are:

- A complete reorganisation of Enterprise Ireland's overseas marketing and support function to help its clients internationalise their activities,
- Implementing pilot training projects to deliver strategic marketing courses to senior management,
- Setting up an extensive Venture Capital Fund (€175 million) to accelerate the extent of VC funding available to SMEs and influencing the VC market to become more involved with SMEs (see also paragraph 3.2.5 above),
- Developing arrangements through the latest Partnership Agreement to promote and extend "gain sharing" across the enterprise sector,
- Introduction of a Skills Base Immigration policy with supporting modern legislation,
- Appointment of a Chief Science Advisor and,
- Development of ESG science and innovation related recommendations into a comprehensive strategy for science, technology and innovation.

Another important contributor to strengthening the competitive environment is the work of the National Competitiveness Council (NCC). The Department of Enterprise, Trade and Employment's active surveillance of progress in implementing NCC recommendations supports regular reporting to Government on the status of national competitiveness and progress on new policies, Many of the measures outlined in this progress report are consistent with the recommendations of the NCC.

3.3.2 Tourism Policy Review Group

In March 2006, the Tourism Action Plan Implementation Group published its third and final report on the implementation of the tourism strategy outlined in the New Horizons report. This implementation report highlighted the significant progress made in putting the strategy into practice. It also identified areas where further progress was required. In light of this, in May 2006, the Minister for Arts, Sport and Tourism appointed a new high-level Tourism Strategy Implementation Group to continue the important work of the Tourism Action Plan Implementation Group. This new group will work with the industry to address a number of key areas where further progress is required. These include competitiveness, product development, sustainability and regional spread of tourism.

3.3.3 Sectoral Approach for Exporting Companies

Enterprise Ireland is now in the second year of its three year strategic plan to exploit market opportunities for exporting companies. The remit of Enterprise Ireland international staff has been broadened to include assistance to companies in accessing venture capital and technology transfer opportunities in global companies. EI is also putting an international mentor network in place, located across major markets to provide supports to exporting companies depending on their needs regardless of region.

---

[4] Report of the Enterprise Strategy Group (ESG) 2004, Ahead of the Curve – Ireland's Place in the Global Economy

[5] http://www.entemp.ie/press/2005/20051009.htm

3.3.4 Small and Medium Enterprises

The Report of the Small Business Forum was published on 16 May 2006[6]. In their report the Forum put forward a detailed set of recommendations across a wide range of areas, in respect of issues that (i) particularly face growing businesses (ii) face all small businesses and (iii) face start ups.

In launching the report, the Minister for Enterprise, Trade and Employment indicated that he generally accepted the recommendations in relation to his area of responsibility and that he would be pursuing the others with his colleagues in Government with a view to early implementation. The Minister has asked members of the Forum to stay in place to act as a body in respect of implementation of the Report. A total of 15 recommendations are included in the final Report. They address 10 priority issues as identified throughout the consultation process and are focused primarily on three areas:

- Creating a better environment
- Stimulating growth
- Inspiring entrepreneurship

Fiscal Measures to Assist SMEs in Ireland

A number of fiscal measures have been introduced to assist the SME sector as follows:

- Business Expansion Scheme and the Seed Capital Scheme – see Annex 3 attached.

- A tax credit for expenditure on research and development – the incremental nature of the scheme particularly benefits start-up companies.

- Small companies have the option of basing preliminary corporation tax on the corresponding corporation tax liability for the preceding accounting period rather than the current period.

- From 1 April 2006, employers whose annual PAYE & PRSI payments do not exceed €30,000 will be able to return their PAYE and PRSI on a quarterly basis, rather than monthly as at present.

- An increase in VAT registration thresholds for small businesses from €25,500 to €27,500 in the case of services and from €51,000 to €55,000 in the case of goods to take effect from 1 May 2006.

One-stop-shops

In Ireland, ICT plays a significant role in facilitating coordination and greater integration between agencies and in making it easier for business to be set up and to comply with associated compliance procedures. These arrangements between agencies involved, notably the Revenue Commissioners and the Companies Registration Office, ensure that, in most cases, a company may be established within a week.

In that regard, a Commission benchmarking study on the administration of business start-ups chose our Companies Registration Office 'Disk' system as a "Best Practice" process for inclusion in the final report. It was described in the report as the most effective use of ICT in the EU for business start-ups. This underlines how, in making full use of new technologies and advances, entrepreneurs can be assisted in establishing their businesses as quickly as possible.

Information and support

Enterprise Ireland operates an Intellectual Property Assistance Scheme. The Scheme provides advice and information on the protection, technical development and commercialisation of inventions. In certain circumstances, Enterprise Ireland can provide financial assistance towards funding a patent programme for the invention covering Ireland and appropriate foreign countries. Finance or technical

---

[6] *Small Business is Big Business*
http://www.entemp.ie/publications/enterprise/2006/smallbusinessforum.pdf

development and other aspects of bringing a product to market is covered by other Enterprise Ireland Schemes

The Patents Office has completed several internet projects designed at improving access to IP information which can easily be availed of by SMEs.
In particular:

- the redesign of the Patents Office website providing more comprehensive information on intellectual property rights;
- establishing user friendly search interfaces facilitating the online, free of charge, searching of Irish patent, trademark and designs databases and registers;
- establishing, an electronic library of the Patents Office Journal (containing legal status information on Irish patents, designs and trademarks), which can be referenced and searched on-line free of charge;

In addition, the Patents Office continues to disseminate a Good Practice Guide and CD ROM which contain case studies and 10 pragmatic recommendations for companies especially SMEs aimed at highlighting the importance of IP to companies' business strategy. The CD ROM also contains an interactive audit tool which is designed to assist business and SMEs in recognising and managing their IP assets as well as deciding on the need for IP protection.

3.3.5 Foreign Direct Investment

Building on FDI successes in Ireland, Government policy is focused on maintaining Ireland as a competitive location for high quality FDI. For the remainder of 2006 and into 2007, this will be a key objective of IDA Ireland in competing in the FDI market. The cooperative approach between private and public bodies ("team Ireland") will remain critical and many projects have been won as a result of this strategy.

3.4 Business Environment and Better Regulation

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

3.4.1 Better Regulation in Ireland

The Better Regulation Group of senior officials from the public sector and the independent sectoral regulators continues to meet on a quarterly basis to progress implementation of the commitments set out in the White Paper Action Plan.

Government agreed, in June 2005, to introduce Regulatory Impact Analysis (RIA). RIA is now being carried out on new national legislative proposals, and on draft EU Directives and significant draft Regulations. The Irish model of RIA is an integrated one, and requires an analysis of the business, social, and environmental costs, benefits and likely impacts of a legislative proposal. From 2007 onwards, Departments will be required to publish in their annual reports details of how RIA was applied to regulatory proposals. The Department of the Taoiseach will review the operation of RIA by the end of 2007, and use the findings to refine and amend RIA processes to ensure it continues to support the development of proportionate and effective regulations. To support officials in conducting RIA, guidelines on the Irish model of RIA were published in October 2005 and a dedicated training course on RIA was developed. It is envisaged that some 130 officials will be trained on this course by the end of 2006. An economic consultant has also been centrally retained by the Department of the Taoiseach and is made available to assist Departments in conducting economic analysis as the need arises.

The Statute Law Revision (pre-1922) Act, enacted in December 2005, removed 209 pieces of obsolete or redundant primary legislation from the Irish Statute Book. Following detailed public consultation, a second Bill is scheduled for publication in before end-2006 for enactment early in 2007, which will remove in excess of 3,000 obsolete Acts from the period prior to 6 December 1922 from the Irish Statute Book. In addition, the Department of Justice, Equality & Law Reform, as part of its reform of legislation in the area of Land Law and Conveyancing expects to repeal a further 300

Acts early in 2007. This process will provide additional clarity to business and citizens, as to those Acts that continue to apply and have relevance in Ireland.

A programme of restatement of legislation is currently in development. Restatement makes the legislation more accessible and user-friendly to business and citizens, by updating existing Acts to incorporate all changes made by subsequent Acts into one, easy to read format, without altering the effect of the law. This process subsequently makes it easier for regulators to introduce reforms and consolidate legislation.

The Department of the Taoiseach has commissioned the Economic & Social Research Institute (ESRI) to conduct a survey of business to find out about attitudes to and experience of regulation. This survey, currently underway, is assessing attitudes towards red tape and administrative burdens but will also focus on impacts of regulation on business and competitiveness. The survey of 900 companies, including SMEs, is being conducted through written questionnaire and will be followed by a qualitative phase. The findings will be published in late Autumn 2006 and will assist in targeting further regulatory reforms.

A Consultation Paper on Regulatory Appeals inviting submissions from interested parties was published by the Department of the Taoiseach in July 2006 and advertised in the national media. The findings of the consultation process, and a related Seminar held in September 2006, will be used to develop proposals for an improved approach to regulatory appeals.

Towards 2016 contains further commitments regarding the advancement of better regulation initiatives at the national level.

3.4.2 Business Regulation Forum

The *Business Regulation Forum* was set up with effect from October 2005, composed of senior business and public sector members. The BRF meets monthly to discuss issues relating to the impact of regulation on business in Ireland. The Forum's first report is currently being prepared. Among other things the report will describe a pilot exercise that is being carried out to test the applicability of a Standard Cost Model (SCM) in the Irish context. The SCM measures the administrative burden of regulation on business and allows for a targeted approach to reducing this burden. The Forum also invited submissions from interested parties and will review the recommendations made. Over time, a number of in-depth studies into areas of regulation of particular interest to business is likely to become the backbone of the Forum's work.

3.5 Sustainability

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

3.5.1 Green Paper on Energy Policy

The Green Paper on Energy Policy, *Towards A Sustainable Energy Future For Ireland*, sets out a strategic framework of proposed options and directions for Energy Policy to 2020. The framework encompasses three key areas of energy policy aimed at ensuring Security of Supply, Sustainability of Energy Supply, and Economic Competitiveness. The Green paper (to published in October) and the questions that it poses for public consultation will set the necessary and wider context to any consideration of institutional and structural changes. The Green paper also highlights the very strong synergies with the current Review of Climate Change Strategy Consultation document published in July 2006.

3.5.2 Renewable Energy

The Minister for Communications Marine and Natural Resources recently announced a revised higher target for 2010 of 15% for electricity consumption generated from renewable sources. Ireland has put in place an advanced feed in tariff mechanism (REFIT), which offers different prices for different renewable technologies to ensure that a broad range of renewable technologies is developed in the future.

In 2006 a number of initiatives, in the form of grant aid, for the promotion of renewable energy in the residential and commercial sectors were implemented. In March 2006 a Greener Homes Scheme was launched. The scheme is providing grant aid of €27m over a five-year period to the domestic sector for the installation of renewable heat technologies including solar, biomass and heat pumps. The public response to the scheme has been very encouraging with over 5,000 applications received in the first five months of the programme.

In June 2006 a new grant aid scheme of up to €22 million for commercial renewable biomass heat technologies was launched. The scheme will allow companies and small businesses to obtain grants for the installation of wood chip and wood pellet boilers in large buildings and commercial premises. Grant aid will be up to 30% of overall cost depending on the overall size of the project. The scheme will be rolled-out over a five-year period and will potentially support the conversion to renewable energy in up to 600 installations depending on overall project sizes. When the programme is fully rolled out, approximately 600,000 Megawatt hours of wood fuel will be used annually which will displace in the region of 60 million litres of heating oil per year. This will result in a reduction of CO_2 emissions of about 160,000 tonnes per year.

In August 2006 an €11m grants package to encourage deployment of combined heat and power (CHP), including biomass CHP, was launched.

In July 2006 a new excise relief programme for biofuels, valued at over €200m was launched. The scheme will be rolled out over a five-year period and will provide excise relief on selected biofuel projects in four specific biofuel categories. The scheme will mainstream significant volumes of environmentally friendly fuels into the Irish transport market allowing Ireland achieve market penetration of biofuels of over 2% by 2008, and amounting to 163m litres of biofuels per annum from 2008.

A Ministerial Task Force on Bio-energy has also been established, in response to the to a growing impetus for bio-energy development in Ireland and recent EU initiatives in this area. The Task Force comprises representatives of seven major Government Departments and aims to draw up a National Biomass Action Plan, which will provide a co-ordinated policy approach to increasing the share of bio-energy in the Irish transport, heat and electricity markets.

3.5.3 Energy Efficiency and Energy Emissions

Decoupling of energy and emissions growth from economic growth began in 2002. Economic growth grew by 4.4% in 2004 while energy consumption increased by 1.4% and energy related emissions increased by 1.1%. Contributing factors for the change in 2004 include: reduction in peat consumption in electricity generation, increased renewable energy production, especially wind, increase in electricity imports, and reduced industrial and services sectors energy use.

3.5.4 Technological Advances

The Minister for Finance in his 2006 Budget Statement announced an €200m excise relief scheme for biofuels. In addition, the Government has provided 50% Vehicle Registration Tax relief for Hybrid cars, which was extended in the 2006 Finance Act to Flexible Fuel Vehicles. The Government will examine further options for technological advances in the context of the public consultation on the review of the National Climate Change Strategy.

3.5.5 Environmental Technologies Action Plan (ETAP)

In Ireland, environmental investment is estimated to be of the order of one billion Euros annually with an employment level of 6,000 people throughout the public and private sectors. With a view to achieving “first-mover” benefits and exploiting the current growth in the environment technologies market, while contributing positively to environmental protection, it is considered vital that we continue to engage actively in this area.

Ireland supports the implementation of ETAP and is participating fully in its ongoing development. A Steering Group with representation from a number of Government Departments and Agencies has been established and a first National ETAP Roadmap has been finalised. Work is ongoing to identify ways to further progress this initiative across a range of Departments and policy sectors. For example, the Environmental Protection Agency (EPA), which already operates the Cleaner Greener Project for environmental technology under the Environmental Research and Technical Development Initiative (ERTDI) programme in conjunction with the Department of Environment, Heritage and Local Government, has commissioned a research call targeting environmental research projects that specifically complement ETAP. The research call, the first phase of which was launched in 2006, includes projects that will look at the current situation pertaining to the application of environmental technologies in Ireland, examine the barriers that exist and will identify future opportunities for Ireland.

3.5.6 Biodiversity

An independent Biodiversity Forum is now in place and a key role for the Forum is the integration of biodiversity into all sectors, including the business sector. Moreover, a commitment for a dedicated public awareness campaign on biodiversity and its importance to human health and well-being will be met in 2006.

3.5.7 Climate Change

The Minister for the Environment, Heritage and Local Government recently published a review of the National Climate Change Strategy. This review has gone out to public consultation with a view to a new Climate Change Strategy being published by end 2006. Ireland is amongst the most successful Member States in achieving a decoupling of greenhouse gas emissions from economic growth since 1990. In 2004, emissions per unit of GDP were 48% of their level in 1990.

3.6 Internal Market

Guideline 12: Extend and deepen the Internal Market

3.6.1 Implementation of EU Directives

Ireland's transposition deficit, after a disappointing rating in the current Internal Market Scoreboard, shows significant signs of improvement. Out of a total of 35 Directives to be transposed between 1st June 2006 and 31st October (the deadline for the December 2006 mini-Scoreboard) Ireland has already transposed 21.

If this promising trend is continued Ireland should comfortably reach the 1.5% deficit-rating threshold for Directives outstanding.

The responsibility for ensuring that Ireland is complying with the Commission's requirements for the transposition of Directives lies with the Inter-Departmental Coordinating Committee on European Affairs (ICCEUA) chaired by the Minister of State at the Department of the Taoiseach.

A full description of the steps that Ireland has taken to improve its transposition process is described in Annex 5. As indicated, Ireland has implemented most of the practices referred to in the 2004 Recommendation. In particular, items 1.3, 2.2, 2.3, 2.5, 2.6, 2.7, 3.1, 3.2, 3.4, 3.5, 4.1, 4.2, 4.4, 4.5, 5.1, 5.2 and 5.4 have been implemented by Ireland.

It should be noted, in particular, that the Department of Enterprise, Trade and Employment has recorded a major improvement on implementation of outstanding Directives in the areas of health and safety, intellectual property and industrial relations. For example there are currently only 3 overdue Directives in contrast to the 13 overdue Directives which remained to be transposed in May 2006. It is expected that by end-2006, there will be no Directives overdue for transposition.

3.6.2 Eliminate remaining obstacles to cross-border activity

The Internal Market Information System, along with the Irish SOLVIT Centre, will provide Departments responsible for EU legislation and their enforcement agencies/competent authorities with a valuable additional tool for enhancing trust and confidence between Member States in relation to cross border activities.

3.6.3 Deregulation of Electricity / Gas markets

Electricity

There are currently five active independent suppliers in the Irish electricity retail market. Activity in that segment is strong with 42% of total energy now being supplied by independent suppliers. In addition, and with effect from 1 July 2006, EirGrid was established as the national independent Electricity Transmission Operator. The establishment of EirGrid as a fully-fledged legally independent entity is a critical milestone in the process of opening up the Irish electricity market in line with EU Internal Energy Market legislation.

Gas

The Energy (Miscellaneous Provisions) Bill 2006, is currently under consideration by the Houses of the Oireachtas (Parliament).

3.7 Competition Policy

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

3.7.1 The Restrictive Practices (Groceries) Order 1987[7]

The legislation required to repeal the Groceries Order, the Competition (Amendment) Act 2006, was enacted on 20 March 2006. The new Competition Act also strengthens prohibitions against resale price maintenance, unfair discrimination (meaning the application of dissimilar terms to equivalent transactions), advertising allowances and "hello" money. At the Minister's request, the Competition Authority will review and monitor the structure and operation of the grocery sector over the coming months and years in line with its statutory functions.

3.7.2 Competition Authority Studies

The Competition Authority has undertaken three major studies in recent years, two of which it has completed and the third, and largest, is nearing completion.

Insurance Study

In its report "Competition Issues in the Non-life Insurance Market" the Authority reported on competition in the motor, employers' liability and public liability insurance markets. It made 47 recommendations designed to make the insurance market in Ireland more open, transparent and competitive. The Authority's Report contained 47 recommendations directed at a number of bodies including the Financial Regulator, the Department of Transport and the Motor Insurance Bureau of Ireland. The Financial Regulator has implemented many of these recommendations, particularly via its Consumer Protection Code published during August 2006.

The Competition Authority regularly reviews the position in relation to the implementation of its recommendations. As part of that process the Authority is currently engaging with all those to whom recommendations were directed with a view to progressing their implementation.

Banking Study

In the Authority's report on competition in the non-investment banking sector in Ireland identified anti-competitive problems in the three sectors examined i.e. personal current accounts, lending to small businesses and the crucial role of the payments clearing system. The Authority made 25 recommendations intended to mitigate these problems and make the banking industry more competitive. There has been considerable progress on implementation of the Authority's

[7] The Groceries Order prohibited the sale of grocery goods by retailers at below the "net invoice price". Therefore, it allowed wholesalers and suppliers to determine the minimum retail prices being charged to consumers thereby restricting price competition in the market. The removal of the Order should stimulate competition, drive increased efficiencies at all levels of the distribution chain and produce a consequent downward pressure on retail prices from which consumers will ultimately benefit.

recommendations. The personal current account switching code set up in response to the Authority's recommendation is having significant success and has led to the phenomenon of "free banking" for many customers. A business current account switching code is being devised and the payments industry has revised its rules of entry.

Professions Study

The professions study is analysing competition in the market for professional services, focussing on engineers, architects, solicitors, barristers, veterinarians, dentists, optometrists and doctors. In respect of each of these professions the Authority's strategy is to release a preliminary report first containing initial proposals for improving competition and thereby allowing a period of consultation with interested parties before the publication of a final report.

The Authority has completed final reports in 3 of the 8 professions being examined (engineers, architects and optometrists) and published preliminary reports in respect of 3 others (solicitors, barristers, dentists).

The Authority has no legal basis to "require" the implementation of its final recommendations. However, as stated above, the Authority regularly reviews the position in relation to the implementation of its recommendations and, as part of that process, it engages with all those to whom recommendations were directed with a view to progressing their implementation.

3.7.3 Enforcement of Competition Law

The Irish system of competition law enforcement has received considerable acclaim of late. This is essentially due to recent successes in the criminal courts where, in one cartel case alone, 15 convictions have been secured so far through prosecutions brought by the DPP with further trials pending. These are the first criminal convictions on indictment ever secured in Ireland or in the EU for competition law offences.

3.7.4 Consumer Policy

The Government appointed a Board to the new National Consumer Agency in 2005 to act in an interim capacity until the NCA is established on a statutory basis. In August 2006 the Minister for Enterprise, Trade & Employment published the General Scheme of the legislation to establish the new Agency. The legislation proposes that the NCA shall have a much wider remit and shall have specific new powers and functions in areas such as consumer advocacy, research, education and awareness, enforcement and information. It is expected that the Bill to establish the new Agency will be published later this year and that the NCA itself will be up and running early in 2007.

In addition to establishing the NCA, the legislation will also transpose the recent European Directive on Unfair Commercial Practices. The transposition of this Directive which will not only outlaw commercial practices which are unfair, aggressive and misleading (as defined in the Directive) but will also prohibit 31 specific practices which have been deemed unfair under the Directive. The transposition will, therefore, offer considerable additional protections to consumers when purchasing goods or services. Furthermore the Bill will also take the opportunity to update the existing framework of consumer law so as to meet the needs of the modern consumer in to-days marketplace.

The above radical changes are intended to address the deficiencies in current national consumer policy and shifting the balance of power more towards consumers as recommended by the Consumer Strategy Group.

3.7.5 State Aid rules and Globalisation

On Ireland's initiative, the Enterprise Policy Group has established a sub-group to consider globalisation and the factors which affect the EU ranking in the global competition for inward investment, with special reference to the effects of the European State aid regime. A paper prepared by Ireland has been circulated to the sub-group for discussion.

3.8 Supporting Infrastructure and Cross-Border Projects

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

3.8.1 Planning and Development (Strategic Infrastructure) Act 2006

This Planning and Development (Strategic Infrastructure) Act was signed into law on 16 July 2006 and provides for the introduction of a streamlined planning consent procedure for strategic infrastructure developments. A new Strategic Infrastructure Division in An Bord Pleanála will now handle all major infrastructure projects. Where the Board decides that the project in question is of strategic importance, an application, accompanied by an environmental impact statement, will be made directly to the Board. The Act schedules the classes of projects for which a streamlined consent procedure is introduced.

3.8.2 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 launched a major programme of transport investment in November 2005. This programme, *Transport 21*, involves capital investment of in excess of €34 billion over the 10-year period 2006 to 2015.

Transport 21 is built around two key strategies:

- the development of a high-quality national transport network with improved regional and local public transport networks and services, and
- the transformation of the transport network in the Greater Dublin Area, mainly through rail-based public transport services.

Key aims of *Transport 21* include:

- Completion of the major inter-urban motorways by 2010 and the commencement of the substantial development of the remainder of the national primary road network;

- Transformation of the transport system in the Greater Dublin Area, mainly through rail-based public transport systems (including 2 metro lines, 7 light rail projects, Navan line, an interconnector tunnel, extension of Dart system throughout suburban rail network);
- Completion of the renewal of the national rail network, with a major focus on the provision of enhanced services (67 intercity carriages and 150 intercity railcars on order);
- Upgrading of the public transport services in provincial cities and in the regions.

3.8.3 Cross-Border Co-operation

Considerable progress has been achieved on foot of the common contribution by the British and Irish Governments in the respective NRPs with a view to promoting North-South economic and social co-operation of mutual benefit on the island of Ireland, Key developments include a comprehensive study (currently nearing completion) on the potential of an all-island economy, developing a joint approach to infrastructure delivery, and working closely on particular issues in the north-west of the island.

Single Electricity Market

The key priority within the All-island Energy Market Development Framework, jointly published by Ministers North and South in November 2004, is to have the Single Wholesale Electricity Market (SEM) in place in 2007. There is strong political commitment North and South to delivery of the SEM by the revised target date of November 2007. It was agreed that the SEM benefits can best be maximised by building into the project plan some additional time for project assurance, impact analysis and market trials. This extra time will ensure that the challenges associated with the implementation of these complex arrangements are fully addressed for all parties including, most importantly, customers and market participants.

Parallel legislation, in conjunction with Northern Ireland, is required to underpin the SEM. An Act of the Oireachtas will be required in this jurisdiction and the legislation is currently being drafted. A Legislative Working Group, comprising officials from the two Departments and the two regulatory authorities, meets regularly to ensure that the legislative process, north and south, is progressing satisfactorily. A Memorandum of Understanding between the two Departments is also required and is currently being prepared.

Gas Network

The two Departments and two Regulators have commenced the task of developing a project-driven work programme for gas, to deliver the objectives set out in the Framework document. The two Departments are working together on plans for a gas storage / LNG study for security of supply on an all-island basis. Consultants will be appointed shortly and the first-phase work is expected to be completed by the end of this year.

Electricity/Gas Interconnectors

Ministers North and South recently welcomed plans by the Transmission System Operators for the construction of a second North-South electricity interconnector which will be operational by 2012 at the latest. Construction of the South-North gas pipeline from Gormanstown to Belfast will be completed in 2006.

Sustainable Energy

In July 2005 a preliminary consultation paper on an all-island "2020 Vision" paper for sustainable energy was jointly issued by the two Departments. The paper sought views on the development of a joint strategy for the provision of renewable energy sourced electricity within the all-island market leading up to 2020 and beyond. The consultation paper identified that further information was required on the resource potential for different renewable energy technologies, the extent to which partially dispatchable and non-dispatchable generation can be accommodated, network development options and the economic implications of the policy options outlined in the paper. This joint Grid Study project is underway and a final report is expected by mid – 2007.

Other co-operative activity on energy emergency planning and research and development is also underway.

Telecommunications Tariffs

As a result of pressure from the Governments, North and South, three out of the four mobile operators here have introduced initiatives that have substantially reduced North/ South roaming charges and tariffs between Britain and Ireland for both pre-paid and post-paid customers.

Tourism

Tourism, one of the leading service sectors in the Irish economy, has, under the aegis of Tourism Ireland and two Administrations North and South, emerged as a leading sector for formal North South economic co-operation.

In 2006, Tourism Ireland has invested significantly in an all-island e-marketing strategy to capitalise on the increased use by overseas tourists of the internet in planning and purchasing their holidays and will have rolled out new generation websites in 18 overseas markets. The three Tourism Agencies on the island have created a comprehensive tourism database for the island to support their various e-marketing initiatives. Smaller tourism providers and associations are being helped to engage with the e-world.

Transport

Transport 21 contains a number of projects which will increase connectivity with Northern Ireland, directly cross-border projects and also by the improvement of transport infrastructure in border areas which will facilitate traffic from Northern Ireland in accessing all parts of this state. Such projects include:

- Road connections in the North-West – the N13 which provides the link from the border to Letterkenny is currently being upgraded. Letterkenny will provide access to the Atlantic Corridor a high quality road which is being developed under Transport 21 to link Letterkenny directly with Sligo, Galway, Limerick, Cork and Waterford, and via any of those cities with the national motorway network.
- Road connections in the North-East – Transport 21 will fund upgrades to the M1, including a Newry-Dundalk link road.
- Airports - €4.5 million of Transport 21 funding for regional airports has been allocated to the expansion of Derry airport in recognition of the importance of this airport to the whole of the North East.

4 Employment Guidelines

> It is accepted that the rapid pace of change in the business environment demands ongoing adaptation and the parties are committed to full co-operation with normal ongoing change and the need for continued adaptation and flexibility to maintain and improve competitiveness and to increase productivity and employment. The implementation of this Agreement at enterprise or industry level will take full account of the implications for competitiveness and employment and the need for flexibility and change, compatible with modern organisation, design, efficiency and business processes. It will also take account of the need to develop a first class work environment which facilitates employee advancement, improves job security, promotes equal opportunities, increases training, productivity, flexibility and good working conditions which benefits everyone involved in the work process.
>
> The EU Integrated Guidelines for Growth and Jobs 2005-08 provide for increased investment in human capital through better education and skills. They also provide for adaptation of education and training systems in response to competency requirements, and to support quality standards in education and training and the promotion of more flexible pathways. The National Reform Programme highlights key priorities in the context of ensuring an integrated approach to addressing skills needs across the education and training sector, addressing barriers to access and progression, the issue of life-long learning and tacking early school leaving and literacy and numeracy issues.
>
> ***-Towards 2016***

4.1 Labour Market Priorities 2005-2008

As outlined in the National Reform Programme 2005, Irish labour market policy over the period 2005-2008 is focused on:

- Sustaining a high level of employment and low unemployment;
- Ensuring an adequate supply of labour to meet the needs of the economy;
- Maintaining a strong focus on education and training, including lifelong learning, to ensure the development of a high skilled, adaptable workforce.

This chapter reports on progress with regard to the implementation of these priorities and reflects the conclusions of the Spring European Council 2006 and the assessment of the European Commission's Annual Progress Report 2006.

4.2 Labour Market Performance[8]

4.2.1 Labour Force

In the second quarter of 2006 the labour force (employed + unemployed persons) stood at 2,108,300, an increase of 93,500 (4.6%) in the year. Demographic factors such as the increase in the working age population and changes in its age structure added an estimated 65,700 to the labour force. Net inward migration accounted for approximately 80% of the demographic increase. A further 28,000 is attributable to increased labour force participation. All age groups recorded increases in participation, with the age group 25-34 in particular (+34,000) continuing to increase.

4.2.2 Employment

Employment growth in 2005 continued in 2006, with the numbers employed increasing by 87,800 (4.6%), in the year to Q2 2006. The number of female and male workers in employment increased by 4.4% and 4.7% respectively. As a result, the total number of persons in employment is 2,017,000, the highest in the history of the State. The employment rate for all persons aged 15-64 increased by 1 point to 68.1%. The employment rate for females increased by 0.8 of a point to 58.8% and for older workers (aged 55-64) by 1.5 points to 53.4%. Full-time employment accounted for over 75% of the

[8] All labour market data Central Statistics Office Quarterly National Household Survey Q2 2006 unless indicated.

annual increase in employment and part-time employment continued to increase (+19,900) with 351,600 persons now employed on this basis.

4.2.3 Employment by Sector

Employment growth was strongest in the Construction sector +20,300 (8.4%), Wholesale and Retail Trade +17,500 (6.6%), Health +13,200 (7%), Education +12,500 (10.2%), Financial and Other Business Sectors +10,200 (4%) and Public Administration and Defence +6,900 (7%). Employment increased across all other economic sectors with the exception of Other Production Industries (which includes manufacturing), which decreased by 5,700 (-1.9%). The occupational categories with the strongest employment growth were Personal and Protective Service +19,800 (9.9%), Professional +17,500 (8%), Craft and Related +14,400 (5.3%) and Sales +14,000 (8.5%).

4.2.4 Employment by Nationality[9]

Employment of non-Irish nationals now accounts for 198,100 persons, 9.8% of total employment. In the year to Q2 2006, the number of non-Irish nationals in employment increased by 47,800 (31.8%) with 69% of this increase attributable to persons from the 10 countries which joined the EU in 2004. Non-Irish national employment growth was particularly strong in Construction +10,700 (49%), Hotels and Restaurants +7,200 (33%), Financial and other Business Services +7,000 (34%). The sectors with the highest proportion of non-Irish national workers were Hotels and Restaurants (25%), Construction (12.4%) and Other Production Industries (11.1%).

4.2.5 Unemployment

At Q2 2006 there were 91,400 persons unemployed (55,200 males and 36,100 females). The unemployment rate stood at 4.3% an increase of 0.1 point in the year. The unemployment rates for males and females stood at 4.5% and 4.1% respectively. The long-term unemployment rate remained unchanged at 1.4%, with 29,600 persons long-term unemployed, representing an annual increase of 2,000.

4.2.6 Regional Comparisons

In the year to Q2 2006 employment at NUTS2 level grew by 67,400 (4.7%) in the Southern and Eastern (S&E) region and by 20,400 (4.1%) in the Border Midlands and Western (BMW) region. The unemployment rate for the S&E and BMW regions stood at 4.3% and 4.5% respectively. At NUTS3 level employment grew in all regions, with the Southeast and Midwest showing the strongest rates of growth at 6.6% and 6.3% respectively.

4.2.7 Youth

In the year to Q2 2006 the number of persons aged 15-24 in the labour force increased by 4.1% to 334,900, with employment increasing by 3.9% to 306,800 and unemployment increasing by 5.3% to 28,000. Eurostat[10] data published in September 2006 shows that the Irish youth unemployment rate of 8.2% is the second lowest in the EU and well below the EU average rate of 17.2 %. Youth unemployment if measured against the population 15-24 stood at 4.4% in Q2 2006.

4.2.8 Vacancies

132,000 job vacancies were notified to FÁS in 2005, an increase of 28% on 2004 and FÁS/EURES advertised 20,000 vacancies on behalf of Irish employers[11]. The Economic and Social Research Institute (ESRI) conducts a monthly employment and vacancies survey for FÁS. This survey provides up-to-date information on how the labour market is performing. The survey shows that the percentage of firms reporting vacancies averaged 16.7% in the first 8 months of 2006[12].

---

9 Since 2005, the QNHS contains data on the labour force classified by nationality. While the figures are subject to review in light of the 2006 Census results, the statistics are regarded by the CSO as a broadly accurate estimate of recent trends and the current situation.

10 Eurostat EU Labour Force Survey Principle Results news release 113/2006

11 FÁS Annual Report 2005

12 FÁS/ESRI Monthly Vacancy Bulletin August 2006

4.2.9 Labour Market Outlook

The ESRI[13] has forecast employment growth of 92,000 and 71,000 in 2006 and 2007 respectively, with the unemployment rate forecast at 4.4% over the same period.

4.3 Activation Measures

Guideline 18: Promote a lifecycle approach to work

Guideline 19: Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people and the inactive

Guideline 20: Improve matching of labour market needs

Guideline 21: Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of social partners

4.3.1 Prevention and Activation[14]

The Preventive Process, introduced in 1998, involves a systematic engagement with the unemployed to assist progress towards employment, training or active labour market programmes. During 2005, 40,718 persons were referred to FÁS with 28,714 attending for interview. Of those interviewed, 17,191 left the live register, with 6,804 placed in jobs, programmes, training and education. Persons unable to progress to training or employment, i.e. 'not progression ready', accounted for 3% of FÁS interviewees. The High Supports process is provided to assist them overcome personal barriers to the labour market.

An independent review of the process was carried out in 2005. The Review concluded that the process encourages many people to increase their job search efforts, improves live register exit probabilities and resulted in likely social welfare savings of approximately €50 million in 2004. The process is currently being extended on the following basis:

- Reducing the engagement threshold from 6 to 3 months;
- Extending the process to 55-64 year olds. This will complement the phasing out of Pre-Retirement Allowance, where older workers were not required to be available for work.

As outlined in *Towards 2016*, increased emphasis will be placed on engaging with lone parents, people with disabilities and unemployed 16-24 year olds.

4.3.2 Active Labour Market Programmes

To prevent exclusion from the labour market and support integration into employment, Ireland continues to invest in a large range of employment and training supports. Expenditure details for the principal supports are outlined in Annex 6.

A total of 63,841 persons completed active labour market programmes in 2005. This included both training and employment programmes. In respect of the Community Employment, Job Initiative and Social Economy employment programmes, the number of places was maintained at 25,000. To increase progression into employment, an increased focus is being placed on the training element of Community Employment.

4.3.3 Expanding the Workforce (ETW)

ETW is a piloted initiative to provide a gateway for women returnees into the labour market. Following an evaluation in 2005, it is planned to mainstream the process nationally by December 2006. Under ETW, specific attention is being given to lone parents, the majority of whom are women. To encourage lone parents to avail of training and re-enter the labour market, a specific initiative,

[13] ESRI Quarterly Economic Commentary, Autumn 2006

[14] National indicators to measure performance against certain aspects of the European Employment Strategy are outlined in Annex 5.

based on the ETW, with the addition of tailored flexibility and supports for this client group will commence in the autumn.

4.3.4 Lone Parents

The QNHS Q2 2006 shows that 45.6% of lone parents are in employment, an increase of 1.3% on 2005 and 8.8% on 1998. A Government Discussion Paper – *Proposals for Supporting Lone Parents* – aimed at supporting lone parents entering employment has been issued for consultation. It proposes a new Parental Allowance for low-income families with young children to replace the One Parent Family Payment (OPFP) and the Qualified Adult Allowances in social assistance. In practical terms the Discussion Paper envisages active and compulsory engagement with employment services when the youngest child reaches a certain age and withdrawal of the Parental Allowance when the child reaches another age (yet to be defined). Currently, the OPFP is paid without any job search requirements until the youngest child reaches 18 years. In addition, claimants who take up a CE scheme are entitled to keep their OPFP payment at the moment.

4.3.5 Redundant Workers

FÁS engages with redundant workers in a process involving information sessions, skills, audits, training and engagement under the Preventive Process. It also explores new start-ups in whole or in part by the industrial development agencies. In the delivery of these services FÁS liaises with other relevant agencies such as Enterprise Ireland, IDA Ireland, the City/County Enterprise Boards and the Department of Social and Family Affairs. Since the beginning of 2003 FÁS has engaged with some 208 companies.

4.3.6 Encouraging people to enter the workforce

Income tax payments and welfare benefits are designed to ensure that all those who wish to work have the opportunity to work and that the competitive advantage of firms and sectors are maintained and enhanced. Tax policy has aimed to facilitate employment growth by alleviating the tax pressure on labour, particularly on the low paid. At the same time, changes such as means disregards and tapered withdrawal of benefits have been introduced to social welfare schemes to remove the financial and non-financial barriers to employment. This will involve the provision of extended information and supports dealing as far as possible with the financial and non-financial barriers to employment, in particular, those which present poverty traps.

4.3.7 Income tax

Ireland's income tax priorities are to ensure that those on the minimum wage do not pay income tax, to maintain a low tax burden, particularly for the lower paid, and to increase the incentive to work. The policy also includes a particular focus on the elderly. Changes introduced in Budget 2006 ensured that:

- Those on the minimum wage continue to be outside the tax net;
- A further 55,000 taxpayers were removed from the tax net, bringing the total number outside the tax net to over 741,000 or 35.9% of income earners;
- Those with incomes at or below the average industrial wage will pay tax at no more than the standard rate of 20%;
- The exemption limits from income tax for persons aged 65 and over were increased.

4.3.8 Social Welfare

Ireland remains committed to providing an adequate level of social protection for those outside the workforce, while at the same time encouraging persons to enter and stay in employment. A number of reforms were introduced in Budget 2006 to further this policy objective. These include:

- Increased funding and qualifying income limits for the Family Income Supplement (FIS), which provides financial support to employees with families on low earnings. As a result 5,000 additional families have become eligible for the FIS;
- The introduction of a tapered withdrawal rate for Disability Allowance and Blind Pension recipients who engage in rehabilitative employment or self employment;
- A reduction in the qualifying period for access to the self-employment strand of the Back to Work Allowance, from 3 to 2 years on the live register and in the qualifying period for the employee strand from 5 to 2 years;

- The introduction of a 50% tapered withdrawal of earnings between €60 and €90 per week for persons in receipt of rent and mortgage interest supplement;
- To encourage employment among one-parent families, the upper income limit for the One Parent Family Payment was increased by 28% to €375 per week. The increased income limit will make several thousand additional persons eligible for payment and those recipients already in employment will be in a position to further increase their earnings.

4.4 Greater Integration of Specific Groups into the Labour Market

4.4.1 Female Participation

In the year to Q2 2006 the number of females in the labour force increased by approximately 40,000 (4.7%) to 891,100, with the number of women in employment increasing by 35,900 (4.4%) to 855,000. Over the same period, part-time employment increased by 10,800 (4.1%) to 271,800 and the number of married women in employment increased by 15,000 (3.8%) to 413,500. The female employment rate increased to 58.8% in the year, with a higher increase experienced by older women (aged 55+). The female unemployment rate stands at 4.1%, 0.2% less than the rate for all unemployed persons.

4.4.2 Gender Pay Gap

The gender pay gap has fallen by 3% since last year's report. The latest rate according to Eurostat is 11% for 2004 compared to 15% for the EU as a whole.[15] Research on the pay gap indicates that the national minimum wage and improvements in both maternity leave provision and childcare services has had a positive impact on the gender pay gap. Further improvements in these areas over the coming year should facilitate a continued closing of the gap. Research into the graduate gender pay gap, published in late 2005, indicates a need to focus on the processes of early career integration and career choices in order to reduce the gender pay gap. The Department of Education and Science, through the school system, encourages increased female uptake of courses in the science and mathematics fields. The 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.

4.4.3 Gender Mainstreaming

Gender mainstreaming has been adopted as the principle strategy to achieve gender equality. Under the National Development Plan (NDP) 2000-2006 most measures are gender mainstreamed and this will be maintained under the new National Development Plan. The National Women's Strategy 2006-2015, which is currently being prepared, proposes to build on the significant progress that has been made in this area, by establishing gender mainstreaming arrangements in Government Departments.

4.4.4 Equality for Women Measure

Under Phase I of the Measure 17 projects were funded to address the barriers and obstacles that women experience in participating in education and training and in entering and progressing within employment. These projects concluded over the period 2005/2006. Under phase II of the Measure launched in March 2005, a total of €5.7 million, including €1 million in ESF co-finance has been allocated to 41 projects. The primary focus of Phase II is on practical measures to upskill women and to encourage employment through the provision of training courses tailored to the particular needs of marginalised 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 and that there will be a good ratio of accredited training to overall training.

4.4.5 Childcare

Under *Towards 2016,* the Government and the social partners agreed to continue to work together over a ten-year period to develop an infrastructure to provide quality, affordable childcare and to

[15] Eurostat: Structural Indicators Database September 2006-Provisional data

work towards increasing the supply of childcare places (of all types) by 100,000 over this period. This will build on a new 5-year National Childcare Investment Programme introduced in Budget 2006, bringing together the areas of child welfare and protection, childcare, early years education, youth justice and the national children's strategy. In December 2005 the Government established the Office of the Minister for Children (OMC) and launched the National Childcare Strategy 2006-2010. The OMC is responsible for all areas of policy and services for children (excluding health and school age education services) and brings together the areas of child welfare and protection, childcare, early years education, youth justice and the National Children's Strategy 2000-2010.

4.4.6 National Childcare Strategy 2006-2010

The Strategy includes the major new National Childcare Investment Programme (NCIP) 2006-2010 and a new National Childcare Training Strategy with a target of 17,000 additional childcare training places to be provided by 2010. When developed, the Strategy will support increased standards in the sector and will build direct linkages with existing training providers such as FÁS, the Vocational Educational Committees, the National Voluntary Childcare Organisations (NVCOs) and the Centre for Early Childhood Development and Education. The National Childcare Strategy will also seek to improve coordination and integration at national and local level between key players, including Local Planning Authorities and County Development Boards.

4.4.7 Equal Opportunities Childcare Programme (EOCP) 2000-2006

Ireland is committed to increasing the overall level of childcare provision in line with the childcare targets set at EU level.[16] The principal vehicle for the delivery of Government Childcare policy in recent years has been the EU co-financed Equal Opportunities Childcare Programme (EOCP) 2000-2006 which was also part of the NDP 2000-2006. Capital grants were available to both private and community sector childcare providers. Total expenditure under the EOCP is expected to amount to just under €500 million of which some €285 million had been spent by December 2005 with an input of €85 million from the European Social Fund. Almost 29,000 new childcare places were delivered by grant beneficiaries representing 92% of the target set for the Programme. By the end of the Programme, the number of new childcare places created is expected to exceed 40,000.

The overall total of childcare places, including new places, receiving grant aid under the Programme now stands at 52,000 places and over 2,400 childcare staff are receiving support under the staffing grant scheme. Expenditure under the Programme will continue in 2007 enabling further progress to be made in exceeding the original targets set. The EOCP fostered the development of a childcare infrastructure to support the delivery at local level in response to unmet childcare needs. A network of 33 City and County Childcare Committees (CCCs) has been developed which works with local service providers including childminders for whom special training and information courses have been run and a voluntary notification system is also supported. The CCCs are active in raising awareness of quality issues and in delivering training, with 322 accredited training courses with 3,888 participants delivered in 2005. A further 89 accredited training courses with 1,220 participants were delivered in 2005 by the 7 NVCOs which are funded through the Programme.

4.4.8 National Childcare Investment Programme (NCIP) 2006-2010

The NCIP succeeds the EOCP and has a funding allocation of €575 million. It will build on the EOCP including the CCCs which have been given an enhanced role in implementing the Programme at local level. As with the EOCP, the NCIP will make large scale capital grants available to childcare providers in both the private and community sectors and staffing grants will be introduced for community childcare providers with a focus on disadvantage. A target of 50,000 additional childcare places has been set for the NCIP. These will be in addition to the 40,000 places that the EOCP is expected to have created at Programme end.

While the NCIP will continue to focus on the creation of additional childcare places, it also incorporates a number of broader objectives which include improving the quality of early childhood care and education services, supporting families and breaking the cycle of disadvantage and supporting a coordinated approach to the delivery of childcare which is centred on the needs of the child. It is intended that the NCIP will place a greater focus on pre-school places for 3 to 4 year olds and on

---

[16] Indicators for these targets are not available. The Central Statistics Office currently collects data in the context of the EUSILC which should enable these indicators to be calculated in the future.

school age childcare. The target of 50,000 additional childcare places includes 10,000 pre-school and 5,000 school age childcare education places.

4.4.9 Childcare Measures Introduced in Budget 2006

Early Childcare Supplement (ECS)

A new payment for all parents of children aged under 6 years has been introduced to assist parents with early years childcare costs. The ECS is a direct, non-taxable quarterly payment amounting to €1,000 per child per annum and is expected to cost the Exchequer in excess of €350million per annum. Other measures intended to contribute to improving work/life balance, are the increased levels of paid (extra 8 weeks) and unpaid (extra 8 weeks) maternity leave introduced during 2006/2007. The increased entitlements will allow parents to use a combination of maternity and parental leave to care for their children.

Child Benefit

The ECS is additional to Child Benefit payments which are paid to all parents of children aged up to 16 years (or 19 years where still in education). The rates of Child Benefit have been significantly increased in recent years. Budget 2006 increased the monthly rate to €150 for the first and second child with higher payments for 3rd and subsequent children.

Childminding Relief

A new childminding tax relief was introduced in 2006. Where an individual minds up to three children in the minder's own home, no tax will be payable on the childminding earnings received, provided the amount is less than €10,000 per annum. Where childminders are availing of the income tax exemption, provision has been made for them to be compulsorily insured for pensions and maternity benefit on a flat rate basis - €253 per annum - in order to support the goal of extending pension coverage.

4.4.10 Further Childcare Commitments in *Towards 2016*

Additional childcare commitments set out in *Towards 2016* include:

- Every family should be able to access childcare services which are appropriate to the circumstances and needs of their children;
- Developing an infrastructure which provides quality affordable childcare and increases the supply of childcare places (of all types) by 100,000 over the 10-year timeframe;
- Reviewing the NCIP in 2010 to assess progress with a view to develop new policy responses and successor programme(s) appropriate to emerging needs in childcare.

4.4.11 People with Disabilities

Under *Towards 2016*, Government and the social partners are committed to long-term goals aimed at ensuring continued improvements in the quality of life of people with disabilities, including access to an income which is sufficient to sustain an acceptable standard of living; access to appropriate care, health, education, employment and training and social services; and support to enable them, as far as possible, to lead full and independent lives, to participate in work and in society and to maximise their potential. The National Disability Strategy is recognised as a comprehensive strategy to address these aims. *Towards 2016* also provides for the elaboration of a comprehensive employment strategy for people with disabilities including a range of measures to promote education, vocational training and employment opportunities.

The Disability Act 2005 and the Government Department Sectoral Plans published in July 2006 form key elements of the National Disability Strategy. The Department of Enterprise, Trade and Employment Sectoral Plan includes proposals for a comprehensive Employment Strategy for people with disabilities. Under this Plan, work will continue with regard to mainstreaming employment and training supports for people with disabilities and to remove disincentives and benefits traps that discourage people with disabilities taking up employment.

4.4.12 FÁS Training of People with a Disability

The FÁS budget for training and employment for people with disabilities increased from €54 million in 2002 to €67 million in 2005. During this period, FÁS has realised approximately 29,000 placements of people with disabilities in employment, training and other options.

The Wage Subsidy Scheme (WSS) introduced in September 2005 provides a subsidy to the employer for people with disabilities who work more than 20 hours per week. Grants of between €7,650 and €9,500 are indefinitely available for each person recruited into employment. The WSS will be promoted more extensively to maximise take-up and performance of the scheme will be closely monitored to assess effectiveness.

Specialist Training Providers (STPs) provide training to people with disabilities who require more intensive support. The 2006 budget for STPs is €46.8 million in line with maintaining the number of participants at 1,961. €8.2 million has been provided for Supported Employment in 2006, a 24% increase on 2005.

4.4.13 Travellers

As outlined in *Towards 2016*, an integrated approach to providing services and supports to Travellers will be developed. Initiatives to provide work placements in the Civil Service for Travellers will commence in October 2006. The work of the Sub-Group of the High Level Group on Employment and Training of Travellers will continue, with a focus on the development of interdepartmental co-operation on Traveller employment and training issues.

4.4.14 Older Workers

The current employment rate for older workers is 53.4%, which is ahead of the EU 2010 target of 50%. There is scope for this to increase considering that (i) the percentage of the population that will enter the age bracket 55-64 in the years ahead is higher than the current population of this age and (ii) the employment rate for older workers is almost 15% less than the overall employment rate, (10.5% less for males and 18.6% less for females compared to their respective employment rates). The most recent Eurostat[17] data shows that the average exit age from the labour force in Ireland in 2004 was 62.8 years (62.3 for women and 63.4 for men). The Irish exit age is the second highest in the EU, with the EU average at 60.7 years.

Flexibility in working hours, particularly the availability of part-time work has contributed considerably in the past number of years to increasing participation of older workers. Employers are being encouraged to adopt more flexible working arrangements, which would facilitate older workers to remain in and return to the workforce. Towards 2016 contains a commitment to promote a cultural mindset change among both employers and employees to encourage older workers to remain in employment and to overcome the current tendency to retire early. In order to change this attitude an increase in participation at all stages of the life course will be encouraged, on the basis that if people are engaged early on then they are more likely to remain later on. Increased investment in training, particularly in-company training, for low skilled/older workers is a strong focus of current policy.

4.4.15 Pre Retirement Allowance (PRETA)

Following a review of the PRETA it was decided that all existing cases will continue in payment to age 66 but that new cases will remain in receipt of long term Unemployment Assistance, where one is required to be available for work. This approach will remove the possibility of PRETA being used to avoid active job search. This policy change will be complemented by the decision to extend the Preventive Process and associated supports to those over 55.

4.4.16 Pensions

Social Welfare Pensions and Older Workers

[17] Eurostat Structural Indicators Database September 2006

In the context of social welfare pensions the Government is committed to making changes to encourage longer working amongst older people. In Budget 2006 the Government introduced a €100 per week earnings disregard into the means test for the non-contributory State Pension.

National Pensions Reserve Fund

The Fund was established in 2001 with the aim of pre-funding, in part, the future cost of social welfare and public service pensions. It requires the statutory investment of 1% of GNP annually until at least 2055, with drawdowns prohibited prior to 2025. The Fund's value at end June 2006 was over €16 billion or over 11% of GNP.

Pensions Coverage

The introduction of Personal Retirement Savings Accounts (PRSAs) in early 2003 was designed to facilitate increased supplementary pension coverage. Participation in the scheme is voluntary for employees, though employers who do not already operate a pension scheme are required to provide their employees with access to a PRSA. Up to the end of March 2006, over 71,000 people have opened a PRSA account – with total assets standing at €552 million. There has also been enhanced Government support for pensions awareness and encouraging pensions action among the public, with a doubling of funding for information services to €1 million in 2006.

The 2006 Finance Act introduced a number of reforms in the area of tax incentives, pensions tax arrangements, the tax liabilities of high earners and the measures to close off potential tax loopholes. These included measures to cap the maximum tax free lump sum for draw-downs from a pension fund made on or after 7 December 2005 at €1.25 million; and a cap on the maximum allowable pension fund on retirement for tax purposes at €5 million or, if higher, the value of the fund on 7 December 2005.

National Pensions Review

The National Pensions Review published in January 2006 provides a comprehensive overview of the pensions system. The Board has reaffirmed the various targets recommended in the original National Pensions Policy Initiative which included a retirement income, from all sources, of 50% of pre-retirement income, a social welfare pension equating to 34% of average industrial earnings and a supplementary pensions coverage rate of 70% for those aged over 30 years. At present supplementary pensions coverage for those over 30 years of age stands at about 59% while the rate of the social welfare pension approximates to 33% of Gross Average Industrial Earnings. As a follow up to the Review, the Government requested the Pensions Board to consider the options the Government could pursue should it decide to introduce a system of mandatory supplementary pensions. The Pensions Board's report entitled Supplementary Pensions – Special Savings for Retirement examined the practical issues associated with a mandatory supplementary pension system and presented several options for such a system. As part of *Towards 2016* the Government has agreed to publish a Green Paper on Pensions which will outline the major policy choices and challenges in this area. Following consultation with the social partners and other interested parties, a framework for comprehensively addressing the pensions agenda will be developed. It is anticipated that this will be completed by September 2007.

4.4.17 Economic Migration

The QNHS for Q2 2006 shows 283,300 non-Irish nationals aged 15+ in Ireland, an annual increase of 55,600 (24.4%). The number of persons from the 10 new EU Member States accounts for 91,800 (32.4%) of the total migrant population and increased by 36,200 (65%) in the year.

Economic migration policy is based on firstly, increasing participation and upskilling the resident population; secondly, maximising the potential of European Economic Area (EEA) nationals to fill skills deficits; and thirdly, using employment permits to meet skill needs which cannot otherwise be addressed.

The Expert Group on Future Skills published a report in October 2005 examining the role of migration in meeting the skills needs of the economy. It identified sectors where the skills needs of the economy would not be entirely met from within Ireland or the EEA. These sectors are: ICT, healthcare, construction, financial services, engineering, pharmaceutical, and sales/marketing. These shortages are primarily the result of a tight labour market, against a backdrop of low unemployment and high levels of economic growth.

Under *Towards 2016*, it has been agreed that economic migration policy will ensure that all workers will be allowed to apply for and reapply for their own employment permit, and that there are adequate safeguards to protect workers' rights in relation to the application for employment permits. Employment permit applications will not be approved for wages that are below the REA/ERO rates or the National Minimum Wage, whichever is appropriate. There will be appropriate consultation with the social partners in determining included and excluded categories of staff/skills for eligibility for work permits. Employment permit holders may transfer to another employment in cases of unfair treatment; and spouses of employment permit holders who are granted residence in Ireland may be granted an employment permit.

Legislation to codify the existing work permit arrangements and give effect to these new and increased protections has since been introduced. It also allows for the introduction of a Green Card System for highly skilled occupations identified by the Expert Group on Future Skills Needs (See 4.7 Future Skills Requirements). The provisions of the Employment Permits Act 2006 will come into operation at the end of 2006. The Department of Justice, Equality and Law Reform published an Immigration and Residence Bill in September 2006. The Bill is intended to review, amend, and enhance the current body of migration and residence legislation.

4.4.18 'Know Before You Go'

In December 2005 the FÁS 'Know Before You Go' campaign was launched. The campaign is designed to promote the integration of migrant workers particularly those from the 10 new EU Member States, into the labour market. Through DVDs, booklets, posters and a website the campaign provides multilingual information on living and working conditions, qualification recognition and employment rights. The campaign is being rolled out in a number of EU Member States.

4.4.19 NESC Report on Migration Policy

Immigration is a new experience for Ireland. In a relatively short space of time, the proportion of residents born overseas has reached the level found in other advanced countries in many cases, over decades. While bringing obvious benefits in employment terms, this also poses major policy challenges for public policy and for society as a whole.

A comprehensive assessment of these developments was published by the National Economic and Social Council (NESC) on 22 September 2006. The report, *Migration Policy*, is based on extensive research, consultation and analysis by the Council towards bringing about a shared understanding of migration and its impact on Irish economic and social life. The Council also published at the same time an independent review of Ireland's migration policy that it commissioned from the International Organisation for Migration (IOM), *Managing Migration in Ireland: A Social and Economic Analysis*.[18]

4.5 Adaptability of Workers and Enterprises

4.5.1 The National Workplace Strategy

The National Workplace Strategy is a blueprint to transform workplaces into 'Workplaces of the Future', and build a competitive and innovative economy. A High Level Implementation Group consisting of representatives of Government bodies and the social partners published its first report in August 2006. Underlining the Strategy's priority themes, notable achievements to date include the following:

- *Promoting workplace innovation*: Agreement in principle on a new Workplace Innovation Fund, committing significant additional resources to the practical implementation of innovative working practices in Irish companies and organisations across all sectors;
- *Promoting capacity for change*: A number of funds and initiatives have now been put in place to support the promotion and development of leadership and management skills in the public

[18] Both reports are available on the NESC website.
http://www.nesc.ie/publications.asp

and private sectors. The National Centre is carrying out valuable research for Partnership and Performance (NCPP) and the Equality Authority on the business case for managing diversity and equality in the workplace;
- *Quality of Working Life*: Agreement has been reached on the need to enhance the debate and analysis of quality-of-working-life issues. Collaborative projects involving the National Centre for Performance and Partnership, the Health & Safety Authority, the Equality Authority and others are intended to address the current data deficit.

4.5.2 Flexible working arrangements

Flexible working arrangements are playing an increasingly important part in increasing employment levels. Forms of flexible working such as part time and fixed term work have increased in Ireland, particularly for women. During the period 1997-2005, the numbers of people in employment has increased by 35%, with the number of females in employment increasing by 44%. The level of increase of females in part-time employment is at 51% over this period compared to a 40% increase for all persons. *Towards 2016* provides that the work of the National Framework Committee for Work-Life Balance Policies will continue to support and facilitate the development of family friendly policies aimed at assisting the reconciliation of work and family life at the level of the enterprise.

4.5.3 Adapting to Change in the Manufacturing Sector

A Report on the the changing nature of manufacturing and services in Ireland was published in 2006. It highlighted that while the manufacturing sector continues to perform strongly, both in terms of increasing turnover and output, manufacturing employment has declined. This decline is not unique to Ireland. Across developed economies, shifting patterns of comparative advantage and the process of structural and technological change mean that employment in manufacturing is declining with employment growth increasingly concentrated in the services sector.

While the importance of the services sector to the Irish economy has grown, manufacturing continues to play a critical role not only in terms of employment but as a driver of economic growth, productivity, and technological change. In responding to the changing manufacturing environment, the most immediate concern is to maintain competitiveness. Since 2004, the operating structure of the enterprise agencies has been redirected to reflect this imperative. To assist competitiveness the enterprise agencies are working to promote the adoption of new technology and best practice at sector and company level.

Towards 2016 contains a number of initiatives aimed at improving this sector. These include particular attention on up-skilling within this sector, supporting greater involvement of manufacturing companies in R&D activity and promoting a range of other specific support initiatives available to the sector. In addition, a High Level Manufacturing Group will be established to review the challenges facing the sector and identify further measures to meet those challenges.

4.5.4 Health and Safety

A Workplace Safety Code launched in June 2006 sets out a new way for employers and employees to work together to prevent workplace accidents and resolve injury issues directly. The voluntary code establishes guidelines on prevention, intervention and follow-up support to accidents in the workplace. In 2005 72 work-related deaths were reported to the Health and Safety Authority compared to 50 in 2004 and 65 in 2003. In relation to injuries arising from workplace accidents, a total of 8,095 non-fatal accidents, resulting in absence of more than 3 days from normal work, were reported to the Authority across all sectors for 2005.

Safepass

Under the Safety, Health and Welfare at Work Regulations, construction workers are required to receive training in the Safe Pass safety awareness programme.113,000 persons received Safe Pass training in 2005, an increase of 13% on 2004.

4.5.5 Labour Law

While recognising the broad level of compliance with employment rights across the economy generally, *Towards 2016* has set out a number of significant commitments to secure better compliance with legal requirements underpinned by adequate enforcement. These include establishment of a new, statutory Office dedicated to employment rights compliance (the Office of Director for Employment Rights Compliance, or ODERC); increasing the number of Labour Inspectors from 31 to 90 by end-2007; greater coordination among organisations concerned with compliance; new requirements in respect of record keeping; enhanced employment rights awareness activity; the introduction of a new and more user friendly system of employment rights compliance; increased resourcing of the system; and higher penalties for non-compliance with employment law. The legislation establishing ODERC will also address a variety of issues in the area of employment rights compliance including a move towards greater accessibility for employees to redress via the Rights Commissioner Services.

4.6 Wage and Labour Costs

Guideline 22: Ensure employment-friendly labour costs developments and wage-setting mechanisms

4.6.1 National Wage Agreement

The terms of the new national wage agreement agreed under *Towards 2016* are 10% payable over 27 months in four instalments of 3%, 2%, 2.5% and 2.5%. An additional 0.5% will be added to the payment from July 2006 for those earning €10.25 per hour or less. The implementation of the agreement at enterprise or industry level will take full account of the need for competitiveness, employment, flexibility and change.

4.6.2 National Minimum Wage (NMW)

Since 1 May 2005, the NMW stands at €7.65 per hour. Taking inflation into account, it has increased by 11.7% since its introduction in 2000. Under *Towards 2016* the NMW will be adjusted with effect from 1 January 2007.

4.6.3 Joint Labour Committees (JLCs)

JLCs are bodies for fixing statutory minimum rates of pay and conditions of employment. They are generally used by sectors where collective bargaining is not well established and wages tend to be low. The Labour Relations Commission published an independent review of the JLC system in 2005. The review identified a number of aspects of the JLC system that should be changed in order to make the system more effective. Building on the review, Towards 2016 provides that the JLC system will be modernised, in further consultation with the social partners and stakeholders.

4.6.4 Labour Productivity

CSO[19] data published in June 2006 shows that the labour productivity of the workforce (as measured by GDP in PPS per person employed) was 29.2% higher than the EU average in 2004. Ireland had the second highest productivity rate among EU countries in 2004 (in terms of productivity per hour worked) and was 19.9% higher than the EU15 average. Measures and policies particularly with regard to investment in human capital, knowledge and innovation and infrastructure are designed to further improve productivity performance.

4.7 Investment In Human Capital

Guideline 23: Expand and improve investment in human capital

Guideline 24: Adapt education and training systems in response to new skill requirements

[19] CSO Measuring Ireland's Progress 2005

4.7.1 Investment in Human Capital

FÁS expenditure on employment and training programmes in 2005 was € 726,176 million, an increase of 10.8% on 2004. Total expenditure by the Department of Education and Science in 2005 was approximately €7.2 billion, an increase of 9.5% on 2004. Under *Towards 2016*, the parties are agreed on the need for a concerted effort to increase the levels of workplace learning and upskilling. In this regard, the Government intends to publish a National Skills Strategy in 2007. increase the number of Labour Inspectors from 31 to 90 by end-2007

4.7.2 Lifelong Learning

Eurostat data[20] for 2005 shows that 8% (+0.8% on 2004) of all persons aged 25-64 participated in lifelong learning in 2005. (EU average 11%) As future employment growth will be increasingly dependent on higher skills levels, increasing participation in lifelong learning remains a priority. The Departments of Enterprise, Trade and Employment and Education and Science are currently reviewing achievements to date in implementing the recommendations of the 2002 Taskforce on Lifelong Learning Report. This review will lead to a forward-looking report on the lifelong learning needs of those above the school leaving age. The forthcoming NDP will also contain a strong focus on upskilling, retraining and lifelong learning.

4.7.3 In Company Training

Greater emphasis is now being placed on developing the skills of those at work and those with the lowest skill levels. A substantial increase in funding has been provided to FÁS to enhance in company training and basic skills development programmes. To ensure continuing skills relevance, FÁS programmes such as apprenticeship, traineeship and specific skills, are developed in conjunction with the social partners and regulatory bodies.

Apprenticeships

Demand for apprenticeship remains strong and in 2005 a record 8,304 new apprentices were registered, giving a total apprentice population of 28,600. FÁS is developing 5 additional occupations in consultation with stakeholders and is considering a further 2 occupations for designation. In addition, as part of the ongoing process of reviewing standards, revised curricula are being introduced to ensure they meet current skills needs.

Traineeships

The Traineeship Programme provides occupation specific training to jobseekers through a combination of off-the job and workplace training. Approximately 2,000 persons completed Traineeships in 2005, an 18% increase on 2004. To ensure that the courses reflect current skills needs, a series of reviews were conducted in 2005 which resulted in the development of new Traineeships and the updating of existing ones.

Competency Development Programme

Funding for the Competency Development Programme increased from €8.5 million in 2004 to over €35 million per annum in 2005 and 2006. The size and scope of the Programme has been expanded and this new approach allows more employees across all sectors and company sizes, particularly SMEs, the opportunity to upskill. It is anticipated that funding for this programme will be enhanced in the context of *Towards 2016*.

FÁS Excellence Through People (ETP)

ETP is the national standard for employee development providing a level of good practice for the training and development of employees. A revised ETP standard which reflects new developments in HR management was introduced in 2005. The number of organisations with ETP rose by 31% to 588 in 2005 covering 134,500 workers.

Skillnets

The Skillnets Training Networks Programme allows enterprises to access training and learning programmes by either forming or becoming part of a Training Network. A new mandate was granted

[20] Eurostat EU Labour Force Survey Principle Results news release 113/2006

to Skillnets in 2005 to provide increased funding and support for enterprises over the period 2005-2010. 54 networks have been approved for funding of €16 million to support training over the period 2006/2007. A new programme ACCEL (Accelerating in-company skills) managed by Skillnets was launched in October 2005. ACCEL covers a 2-year period and is funded through the National Training Fund and European Social Fund. A particular focus of ACCEL is identifying those most in need of vocational advancement and addressing this by giving access to suitable training grants of up to 75% to participants. Over €9 million was committed to approved projects on foot of the October 2005 call for proposals. Work is ongoing on the expansion of the Training Networks Programme as provided for in Towards 2016.

Workplace Basic Education Fund

The Fund was launched in 2005 and aims to develop the literacy and numeric skills of workers. By the end of 2005, 681 persons had registered for participation and this number has been expanded further in 2006. Towards 2016 has proposed that the allocation for the Fund be increased.

Enterprise Agencies

€2.5 million was allocated to IDA Ireland in respect of training and development activities in 2005. Enterprise Ireland was allocated €7 million to support in-company training, management development of client companies. In 2005 Enterprise Ireland launched a €20 million Productivity Improvement Fund to assist Irish firms achieve greater efficiency and competitiveness.

County Based Tourism Learning Networks

The National Tourism Development Authority (Fáilte Ireland) has begun an innovative programme of county-based learning networks to bring ongoing learning and development closer to the industry operators. Network participants are receiving training and support throughout the whole of 2006 in the form of workshops, mentor support, computer and e-learning and through interaction with other Networks.

4.7.4 Future Skills requirements

National Skills Strategy

Research is currently being undertaken by the Expert Group on Future Skills Needs to underpin the development of a National Skills Strategy. The Research will set out the potential skills needs of the economy over the next decade and the likely supply and demand for skilled labour. The Strategy will map out the key policy issues with regard to addressing the skills needs of the economy to 2020.

Programme for University Industry Interface

The Programme for University Industry Interface is a research project aiming to establish greater links between the needs of industry and third level institutions. It aims to identify skills and competencies needed by individuals and industry and to research and pilot learning models that will deliver in-company education and training in the future.

4.7.5 National Framework of Qualifications

The Framework is a system of ten levels designed to incorporate awards made for all kinds of learning wherever it is gained. It puts the needs of the learner first and supports the objective of moving towards a lifelong learning society. Implementation is advanced with the most recent milestones in summer 2006 being the publication of implementation arrangements for the Framework in further education and training and the development of policies and criteria for the recognition through the Framework of professional and international awards. The National Qualifications Authority of Ireland is planning to commence a review of the implementation and impact of the Framework in 2007. Work is also ongoing to ensure FÁS awards are recognised and transferable at an appropriate qualification level within the National Framework of Qualifications.

4.7.6 Educational Disadvantage

Measures under the action plan for educational inclusion DEIS (Delivering Equality of Opportunity in Schools) include pre-school interventions, supports for tackling children's literacy problems, reduced pupil teacher ratios and measures to tackle early school leaving. The total provision for educational inclusion programmes in 2006 is over €640 million (+7% on 2005) across all levels of education. This includes additional funding for the implementation of measures under the DEIS at pre-school, primary and second-level, additional funding of €7 million for further education programmes and a €20 million increase in provision for third-level student support schemes. To support early years education, a draft national quality framework for early childhood education was published in May 2006. This is in addition to the ongoing preparation of a curricular framework for early learning. It is anticipated that a National Childcare Education and Training Strategy will be completed by September 2007. It will aim to put a structure in place for the sector focusing on the education and skills of Childcare workers to improve the quality of delivery.

4.7.7 Early School Leavers

The EU 2010 targets for education are that at least 85% of 22 year olds in the EU should have completed upper secondary education and that the average rate for early school leavers should be no more than 10%. Eurostat data[21] for 2005 shows that 86.1% of the Irish population aged 20-24 have completed at least upper secondary level education (EU average 76.9%). The same data shows progress in reducing the rate of early school leaving continues to be made with the rate for 2005 at 12.3%, a decrease of 0.6% on 2004 (EU average 15.2%).

Actions being undertaken to increase participation in education reflect the policies outlined in the European Youth Pact on the need to provide education and training to address the labour market challenges facing young people.

Early School leaving Programmes

The National Educational Welfare Board provides the framework for promoting regular school attendance and tackling the problems of absenteeism and early school leaving. Programmes such as Youthreach and the Bridging/Foundation Programme designed to enable early school leavers access the labour market continue to be provided, supporting approximately 4,600 persons annually. The School Completion Programme (SCP) targets persons aged 4-18 at risk of early school leaving and arranges supports to address inequalities in education access, participation and outcomes. There are currently 82 SCP sites in 21 counties (108 post primary schools and 302 primary schools) with 53 second level schools participating in the Stay in School Retention Strand (SSR) of the SCP in 17 counties, targeting approximately 23,000 young people at risk of early school leaving. €24.7m has been allocated to the School Completion Programme for 2006.

Towards 2016 has proposed to increase the resources of the National Educational Welfare Board and second chance education measures such as Youthreach where a significant increase of an additional 1,000 places by 2009 has been proposed.

4.7.8 Adult Literacy

Funding for adult literacy has increased from €1 million in 1997 to almost €23 million in 2006. The number of persons catered for annually has increased from 5,000 in 1997 to over 35,000 in 2005. Towards 2016 has proposed a further increase in student numbers of 7,000 (6% per annum) over a three-year period.

4.7.9 Higher Education

There has been a significant expansion of higher education over the past two decades in terms of participation and investment. The most recent Department of Education and Science data shows that 143,543 persons are in full time third level education. The CSO Module on Educational Attainment 2002-2005 shows that approximately 25% of those aged 15-64 had a third level qualification in 2005, an increase of 5% on 2002.

Investment in higher education is a fundamental part of the Government's strategy for developing skills and competencies. €900 million has been sanctioned for capital investment over the period 2006-2010. Significant increases in funding will also be provided to deliver the targets outlined in the Strategy for Science Technology and Innovation. Furthermore, an additional €300 million has been allocated under the new Strategic Innovation Fund introduced in Budget 2006, to be made available to 2010. The Fund aims to promote collaboration and reform in higher education with a view to

[21] Eurostat EU Labour Force Survey Principle Results news release 113/2006

enhancing the capacity of the system to meet future knowledge and skills objectives, particularly, the establishment of a fourth level (PhD) tier of education.

In terms of structural reform, the Institutes of Technology Act 2006 provides for the Institutes to have greater autonomy in fulfilling their remit. This reform is intended to provide a more strategic approach to the development of higher education in line with national priorities. It also preserves the differentiation of mission between the different third level sectors in line with the OECD Review of Higher Education recommendations.

4.7.10 Enterprise education

The Reports of both the Enterprise Strategy Group and the Small Business Forum recommended the development of a strategic approach to enterprise education. In the context of curricular reform the National Council for Curriculum and Assessment has been requested to design, as an exemplar, a short course in enterprise education, building on existing models. The Departments of Enterprise, Trade and Employment and Education and Science, are examining how best to progress these recommendations.

State funding for the promotion of enterprise within the education system is primarily channelled through the relevant State Agencies. The City/County Enterprise Boards (CEBs) support teachers in the delivery of enterprise programmes designed to give practical experience of setting up and running a business. The CEB Student Enterprise Awards scheme involves some 10,000 second-level students annually. Enterprise Ireland is involved with Universities and Institutes of Technology in fostering entrepreneurship among students and in turning research activity into commercial enterprises. It is also involved in other enterprise education initiatives such as the 'Campus Companies Initiative' and the 'Innovation Partnerships Scheme'. Enterprise Ireland is also working with Institutes of Technology to develop on-campus incubation centres to facilitate the development of new high growth companies. Institutes will receive over €380 million for the establishment of business incubation centres.

Annex 1: Common Contribution by the British and Irish Governments

In 2005, the British and Irish Governments agreed to include a common contribution in their respective national reform programmes with a view to promoting North/South economic and social co-operation of mutual benefit on the island of Ireland.

This initiative was undertaken 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.

The Governments continue to 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 also believe that improved cooperation within Ireland, North and South, on matters when appropriate of mutual benefit has an important role to play in meeting the Lisbon objectives.

The challenges and opportunities for North and South identified in the 2005 Common Contribution remain valid. In order to advance cooperation, to mutual benefit, the two Governments will continue to work together to:

- identify those areas and policies where cooperation 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; and
- assess the potential for lessons to be learned from each other.

Significant progress has been made since then across a range of areas.

Comprehensive Study on the All-island Economy
The Governments are currently undertaking a comprehensive study on the opportunities for further practical cooperation on the development of a more competitive and prosperous all-island economy, including building on the Lisbon Common Contribution. The final report is due in October 2006 and will specify specific actions and initiatives to further improve all-island cooperation.

As part of this process, the Governments have already agreed:

- to co-operate and pool resources in trade promotion;
- an all-island approach to labour market skills forecasting;
- an all-island approach to international collaboration in science and technology; and
- an all-island approach to business development through knowledge exchange by developing networks and clusters.

Regional Development/Northwest Gateway Initiative
The two Governments have agreed on a new Northwest Gateway Initiative in order to maximise the potential of the North-West of the island through close co-operation. The Initiative includes a non-statutory integrated spatial planning and development framework for the region, an examination of the potential for joint investment in key infrastructure projects, joint analysis and actions by agencies in areas such as trade and investment promotion, tourism, skills/training, further and higher education, innovation and business development and better co-ordination of public services, notably in health, education and information services.

Spatial Planning and Infrastructure
The two Governments have agreed on collaborative action involving the two spatial planning strategies on the island. The relevant Government Departments and other key stakeholders are currently preparing a new collaborative framework for the spatial strategies.

Energy
In November 2004 the Ministers responsible for energy in both the North and South agreed an All-Island Energy Market Framework. This framework mandated the Regulatory Authorities in the two jurisdictions to create the single electricity market within the period 2004 to 2007. Since then the two regulators have been working towards the creation of the Single Electricity Market and it is expected to be operational by November 2007.

The two Governments have also agreed to work together to maximise the contribution of renewable and sustainable energy to the future energy needs of the island.

Annex 2: Research and Development / Innovation

Key R&D Policy Challenges and Policy Initiatives/Measures Taken/Planned

1. Strengthening the Higher Education Research Base

The increased investment in higher education R&D noted above demonstrates the significant strides that have been made in Ireland's third level academic base under the current National Development Plan. The Programme for Research in Third Level Institutions (€600m) and the initiatives of Science Foundation Ireland (€650m), in particular, have changed the scale and quality of research undertaken in Ireland and the infrastructure supporting it. The 2004 international impact assessment of the PRTLI concluded very positively, describing it as a "unique and far-sighted initiative". The 2005 international review of SFI found that "impressive progress towards developing a strong research capability in biotechnology and ICT has been achieved in a very short time."

This work will continue and intensify over the coming years because investment in human capital development is viewed as pivotal to the success and sustainability of Ireland's national innovation system. This next phase will address a number of priorities, including:

- Research capacity, quality and output
- Investment in fourth level and the public research system
- Reform in the universities
- Better management of the research and innovation environments to ensure effective transfer of knowledge and technology.

Two overarching goals will be pursued:

1. To build up a sustainable system of world class research teams across all disciplines in terms of people and supporting infrastructures,
2. To double the number of PhDs by 2013.

These goals are interlinked since the quality of both research and postgraduate formation is dependent on access to world-class principal investigators to lead teams of postdoctoral and postgraduate researchers.

To achieve these,

- Further investments in research infrastructure will be made across the country to build on progress under the current NDP. The PRTLI made significant inroads in rectifying the historical deficit and the SSTI will address the remaining shortfall and provide for new infrastructure. The activity under the SSTI is complemented by the announcement in the 2006 Budget of €900m for a 5-year capital programme and a further €300m Strategic Innovation Fund. Through an internationally peer-reviewed competitive tender, the latter will support universities in increasing their capacity to produce high quality 3rd and 4th level outputs. It will be based on national priorities and individual institutional strengths as well as inter-institutional collaborations will be encouraged.
- Research activity by more world-class well-structured research teams will be supported by the establishment of graduate schools which will ensure the more effective development of our researchers (e.g. with greater transferable professional skills training), shorter PhD duration and improved completion rates.
- Sustainable career development for researchers will be tackled under the auspices of a special task force of the national Advisory Science Council
- In addition to domestic activity, obstacles to the attraction of international of researchers are being addressed, e.g. through the Irish Researcher Mobility Centre, fast-track work permit arrangements for research.
- The governing bodies of several institutions have been undergoing several modifications, including the appointment of external chairpersons and greater representation of non-academic stakeholders. In addition, enhanced policies for both external and internal quality assurance procedures are being implemented across the universities.

SSTI Indicators

- Number of new doctorates in science, engineering and technology earned annually to nearly double from 543 in 2005 to 997 in 2013.
- Number of new doctorates in humanities and social sciences to increase from 187 in 2005 to 315 annually by 2013.
- Ireland will significantly increase its performance in the publications league table (currently ranked 12^{th}).
- Ireland will aim to significantly enhance its performance on the citations index.

2. Research Commercialisation

Transfer of knowledge into market opportunities is a critical link in the innovation system and one to which Ireland is increasingly turning its attention. Returns on our growing research investments will be optimised through informed researchers, well-resourced and connected technology transfer offices and up-to-date expertise on the protection, management and commercialisation of emerging intellectual property.

A two-pronged approach will be employed to this end:
1. Third level institutions are being assisted to strengthen their IP/ commercialisation function by way of a €30m competitive Technology Transfer Office Fund. The Fund will support, inter alia:
   - Training for researchers on the importance and potential of technology transfer,
   - Recruitment of expert staff to engage in IP scouting, selection and protection.

An essential criterion for institutions' success in securing funding under this mechanism is the importance that they attach to IP and commercialisation within their overall strategic mission.

2. A central unit will be set up in Enterprise Ireland to provide access for technology transfer offices to particular expertise and support, e.g. on legal matters, IP marketing.

A National Code of Practice for managing intellectual property from publicly funded research was launched in April 2004. This was followed in November 2005 with a Code of Practice for Managing and Commercialising IP from Public-Private Collaborative Research. Together these Codes provide a comprehensive set of guidelines for IP management and commercialisation and a framework for IP negotiations to facilitate the development of enterprise-academic relations.

SSTI Indicators

As part of the deeper support for, and engagement in, technology transfer, each research performing institution will be required to set targets in the following areas:

- Financial and human resources devoted to technology transfer, IP management and other commercialisation activities,
- Number of invention disclosures reported,
- Number of patents applied for and granted,
- Number of patents generating revenue,
- Number of licence agreements with companies,
- Total revenues from licensing and fees from royalties,
- Number of actively trading spin-off firms established and their survival rates,
- Private sector investments in public research spin-offs,
- Number and size of industry-commissioned projects.

3. Enterprise R&D

Manufacturing and international services will continue to be fundamental to Irish economic growth. Future opportunities primarily lie in the development of knowledge-intensive industry, both in terms of indigenous activity and in those element(s) of foreign direct investment that Ireland seeks to attract and embed. It also means greater use of technology in all sectors to improve productivity and competitiveness.

Business expenditure on R&D, as noted above, is increasing in absolute terms but relative to economic growth levels and international comparators is weaker than desirable. There is therefore a strong push in the SSTI to engage a larger number of companies 'more' in R&D activity in Ireland. The key elements of this new approach are:

- Raising awareness and increasing the number of companies carrying out R&D,
- Improving soft support systems to secure the development of appropriate technology strategies by companies,
- Achieving step changes in quality and quantity of R&D activity in existing R&D performers,
- Building in-company technology capability,
- Increasing inter-company and industry-HEI collaboration,
- Simplifying the administrative and operational procedures of R&D programmes.

To implement this approach, the SSTI provides for the establishment of Technology Ireland as a virtual structure under the aegis of the Office of Science, Technology and Innovation (OSTI). Commencing January 2006, senior executives from SFI, IDA, EI and Forfas have been meeting with OSTI to begin this process. Chaired by OSTI, the Group will have responsibility for:

- Overseeing the implementation of required actions to achieve the targets set out below,
- Ensuring coherence in programmes and initiatives among the agencies,
- Identifying areas for enhanced synergy initiatives to promote enterprise R&D.

Consideration is currently being given to the improvement of the financial supports available for in-company R&D in order to deliver a more holistic and systematic offering to client companies. The tax credit for R&D introduced in 2004 is another important element of the portfolio of public support for enterprise R&D. The scheme (which is incremental and operates on a rolling baseline starting from 2003) is being monitored to ensure that it is supporting the SSTI targets as effectively as possible.

This work is complemented by activity within the enterprise development agencies to enhance the 'soft supports' available to firms. For example, Enterprise Ireland recently rolled out its R&D Advocates: people with appropriate expertise and experience to contact and engage with firms who have not previously undertaken R&D. The IDA is running a new international promotional and marketing programme aimed at MNCs with operations in Ireland and those in target markets overseas.

Also on the international front, technology transfer from foreign sources will be enhanced through the TechSearch initiative and linkages between MNCs and SMEs in Ireland.

Industry-academia linkages are another critical part of the agenda for Technology Ireland. Initiatives such as Innovation Partnerships run by Enterprise Ireland over the course of the current NDP are being added to with fresh efforts to increase the levels of collaborative activity in Ireland (between firms and third level institutions and also between firms themselves). These include industry-led networks in which companies engage with each to agree a shared strategic research agenda and then to select a research group(s) with whom to collaborate. The most recent examples of these are in the areas of functional foods and e-learning.

Further structured engagement between industry and academia will be supported through the establishment of competence centres similar to the existing Tyndall Institute in Cork and the newer National Institute for Bioprocessing Research and Training based in University College Dublin. Establishment of such centres will be based on the identification of strategically important technologies for Ireland.

The Institutes of Technology are a key resource for applied research and human capital development in the regions. The Applied Research Enhancement Initiative has recently been rolled out nationally to strengthen the research capability of the Institutes in areas relevant to regional enterprise needs. For example, an Applied Marine Biotechnology centre has been established at the Institute of Technology in Letterkenny, Co. Donegal.

SSTI Indicators

- Business investment in R&D to increase to €2.5bn by 2013.
- No. of indigenous companies with meaningful R&D (> €100,000) to increase to 1,050.
- No. of indigenous companies with significant R&D (> €2m) to increase to 100.
- No. of foreign affiliate companies with minimum scale R&D up to 520.
- No. of foreign affiliate companies with significant R&D to grow to 150

4. Science, Education and Society

Ireland will make a number of important changes to science education at primary and secondary level in order to increase and improve their outputs and throughput to higher levels.

Science has recently been re-introduced into the primary curriculum and corresponding training for teachers is undergoing enhancement, both in the Colleges of Education and via in-service training. At secondary level, a revised syllabus was introduced to the junior certificate in 2003 with a greater emphasis on investigative work.

While approximately 90% of students take science in this cycle, this falls to 60% in the leaving certificate and work is required to address this falloff. This will be tackled by:

- Reform of the Leaving Certificate science curricula to ensure a continuum from the Junior Certificate and to increase the emphasis on project/ hands-on activity,
- Increased investment in teacher professional development and consideration of technical assistance,
- Improved information and awareness activities.

The latter is supported by the Government's integrated awareness programme Discover Science and Engineering (DSE) whose budget is doubling to €4m in 2006 and will increase further in 2007. DSE is currently enhancing its notable work since its launch in 2003 through wider coverage, greater use of internet-based support materials and ongoing public promotion of science. Continuing the pipeline, more students who study science at secondary level will be encouraged to continue their science focus in third level and beyond.

5. Sectoral Research

Significant areas of sectoral research right across the various realms of Government activity hold strong potential to deliver socioeconomic progress for Ireland. These include:

- *Agriculture and food:* RTDI has a key role to play in the sustainable development of the sector and research funding provided is being focused even more on identified sectoral needs and its future competitiveness. Stronger links with other relevant research activity will be promoted, e.g. on agri-environment issues.
- *Health:* strong research competence is essential to the future delivery in Ireland of world-class healthcare and the recruitment of top professionals. The Advisory Science Council will shortly publish a review of key policy requirements, e.g. the establishment of a number of translational research centres, with a view to strengthening health research and policy research capacity.
- *Environment:* Future research in Ireland will focus on addressing changing circumstances and generating new knowledge of the environment and environmental technologies. These will be assisted by the development of an environmental research centre.
- *Marine:* the Marine Institute's strategy for the period to 2013 aims to deliver an integrated research and innovation programme that prioritises (i) activity within existing industry, (ii) the development of new research capability and (iii) policy support research.
- *Energy:* the energy sector is characterised by high dependency on imported fuels and international environmental obligations. Work on the articulation of national energy policy is underway and thematic areas will include Smart Grids, the rational use of energy, wind energy, marine energy and biomass for heat and fuel.

6. All-island and Internationalisation

Ireland's research efforts have benefited greatly from transnational collaboration through the promotion of scientific excellence, access to state-of-the-art facilities and enhanced researcher mobility and networking. Continued involvement in international activities will be pursued in a co-ordinated and strategic fashion over the next period. Particular attention is being given to our participation in the EU's Seventh Framework Programme and new support structures are now being put in place to ensure maximum readiness and return from our participation in the programme. As well as engagement in other European activities such as the European Space Agency and various inter-governmental research organisations, we will examine the potential for co-operation with economies in Asia and continue to develop our links with the US.

All-island collaboration is a horizontal objective of the Strategy and, where appropriate, related initiatives will be undertaken, as is happening in a number of instances across the sectoral areas.

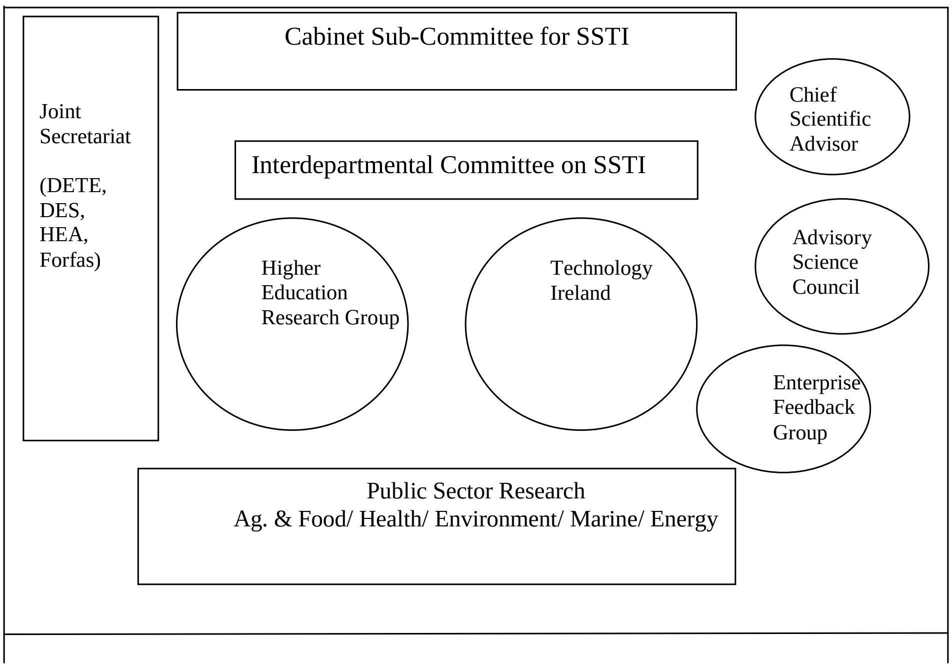
SSTI Indicators

- Share of HERD funded from foreign sources to increase to 20% by 2013 (10% in 2004).
- Return from EU Seventh Framework Programme to all participants to reach €400m by 2013.

7. Policy Oversight and Review

The Inter-Departmental Committee (IDC) for STI, reporting to the Cabinet Sub-Committee, will have overall responsibility for the implementation of the Strategy for which there is a total budget of €8.75bn over the period to 2013. Its key role will be in assessing progress against indicators as set out above.

In addition to the inputs of the Advisory Science Council and the Chief Scientific Advisor, the IDC will be supported by two implementation groups composed of representatives from the relevant Departments and related agencies. The Higher Education Research Group will have responsibility for ensuring coherence among key funding initiatives such as PRTLI and the funding awards schemes of the relevant agencies and councils. Technology Ireland, as discussed earlier, will be responsible for enterprise R&D activity. The IDC and implementation groups will be backed up by a Joint Secretariat comprised of representatives from the Department of Enterprise, Trade and Employment, the Department of Education and Science, Forfas and the Higher Education Authority.



Annex 3: Fiscal Measures to Assist SMEs

Business Expansion Scheme (BES)

The BES was introduced in 1984 as an incentive to private investors to invest in long-term equity capital in companies (particularly new and smaller ones), operating in certain sectors of the economy, which would otherwise find it difficult to raise such funding and would instead have to rely on loan finance which in turn can be difficult for small and start-up companies to obtain. The BES and the associated Seed Capital Scheme have been renewed a number of times since and are now extended to 31 December 2006. Both schemes are currently being reviewed.

The aggregate amount that a company can raise under the BES and the SCS is €1million. Provided that an investor holds his investment for a minimum period of 5 years, the BES provides individual investors with tax relief, at their marginal tax rate, in respect of investments of up to €31,750 per annum (minimum €317) in certain qualifying companies. Investments can also be made through Revenue approved designated funds which generally invest in a number of companies. Qualifying companies include certain manufacturing, services, tourism (excluding buildings), Research and Tourism, plant cultivation, companies constructing and leasing advanced factories, and certain music recording activities.

Seed Capital Scheme

The Seed Capital Scheme was introduced in 1993 as an incentive to encourage individuals to start up new businesses. The scheme provides a refund of tax paid in the previous six years to employees who leave employment and start their own business. In order to qualify for the refund, the individual must comply with certain conditions and the company must be carrying on a qualifying trade (i.e. manufacturing, certain tourism activities etc). The company must also be certified by an appropriate agency such as a County Enterprise Board. The size of the refund depends on the amount of the individual's investment and effective tax rate. There is an upper limit in any one year of the tax paid on income of €31,750 and the investment is subject to an overall maximum refund of the tax paid on €182,240.

The Business Expansion Scheme may also be availed of by companies to which the Seed Capital Scheme applies.

Research and Development Tax Credit

Finance Act 2004[22] introduced a 20% tax credit for incremental expenditure on R&D. The credit is in addition to any normal tax deduction available to a company for R&D expenditure. This gives a potential tax write off for incremental R&D spend of up to 32.5%. The tax credit applies, not only to basic and applied research but also to experimental development. The credit provides an effective incentive to companies to increase R&D and complements the various direct R&D grant supports which are also available through various agencies of the State.

The credit can be offset against a company's corporation tax liability for the current year and any unused credit can be carried forward indefinitely against the corporation tax liability for subsequent accounting periods of the company until it is used up. The scheme is an incremental one whereby expenditure in excess of a defined base can qualify for the credit. For the first three years of the scheme (i.e. 2004 – 2006) the base is R&D expenditure incurred in 2003. Thereafter, there is a rolling one year base i.e. for 2007 the base is expenditure incurred in 2004 and for 2008 the base will roll on to expenditure incurred in 2005 and so on. The scheme therefore is of particular assistance to new start up companies where the base year will be zero and therefore all expenditure on R&D will qualify for the tax credit.

Where a company incurs expenditure on carrying out R&D activities also pays a sum to a university or institute of higher education in the EEA for that university or institute to carry out R&D for the company, the sum so paid, up to an amount that does not exceed 5% of the expenditure incurred on R&D activities carried out by the company, will qualify for the credit.

[22] Section 33 of the Finance Act 2004 inserted by sections 766 and 766A into the Taxes Consolidation Act 1997

The Finance Act 2004 also provides that where a company incurs relevant expenditure on the construction or refurbishment of a building or structure which is to be used for the carrying on by it of R&D, the company is entitled to a tax credit of 20% of the cost of construction or refurbishment but this will be allowed over a period of four years as a credit against corporation tax.

Annex 4: Guidelines on Best Practice on Transposition of EU Directives

Background

Following consideration of a Working Paper on Transposition and Infringements, the Inter-Departmental Coordinating Committee on European Affairs (ICCEUA)[23] decided that a set of agreed Guidelines on Transposition should be developed. These Guidelines should:

- Be based on the EU Commission recommendations for best practice
- Incorporate principles and process elements

The principle elements should:

- Fully integrate the principles of Better Regulation and the Regulatory Impact Assessment model;
- Take into account the increasing influence of the Courts and evolving case law on the transposition process;
- Take account of the Oireachtas [Parliamentary] Scrutiny Process and provide Early Warning to Government of EU legislation likely to be difficult and/or costly to transpose.

The process element should set out in simple steps how best to transpose a Directive.

The Transposition and Scrutiny processes adopted in other countries (in particular the UK and Scandinavia) were taken into consideration in the drafting of the Guidelines.

Agreed Guidelines on Transposition

Process and Principles

1. Following the formal circulation of a draft EU Directive and its assignment to a Lead Department, the Departmental officials involved in the negotiation of the Directive should, if practicable, also be closely involved in its transposition. If this is not possible, the negotiators should keep the officials responsible for transposing the Directive fully informed throughout the negotiations. This is especially important for the correct application of the Regulatory Impact Assessment (RIA), and for interpreting the European Commission's Impact Assessment.

Regulatory Impact Assessment (RIA)

2. RIA is a tool used to assess the likely effects of a proposed new regulation or regulatory change. It involves a detailed analysis to ascertain whether or not the new regulation would have the desired impact. It helps to identify any possible side effects or hidden costs associated with regulation and to quantify the likely costs of compliance on the individual citizen or business. It also helps to clarify the costs of enforcement for the State.

The Government Decision of 21 June 2005 requires that RIAs should be applied to all draft EU Directives and certain significant draft EU Regulations when they are published by the European Commission. RIAs must be conducted on Directives/significant Regulations as early as possible and before they are agreed so that the information they generate can inform Ireland's negotiating position and thus minimize potentially negative implications for Ireland. The RIA must, therefore, be applied to draft Directives (and draft Regulations where appropriate) after the Commission has published the proposed Directive (or Regulation) and its own impact assessment (which only covers cross-national impacts), but before negotiations have been completed.

Screening RIA and (if required) Full RIA

3. Where significant impacts are identified in the Screening RIA, a full RIA must be conducted (see Guidelines on the preparation of RIAs available at www. betterregulation.ie). The RIA should be completed in time to influence the negotiations on the Directive. The RIA must also be updated, as

[23] ICCEUA is chaired by the Minister of State for European Affairs at the Department of the Taoiseach

required, during the negotiation process and transposition into Irish Law, to take account of significant changes to the original draft Directive. Additional Impact Assessments carried out by the Council, or the European Parliament (to take account of Amendments), should be taken into account in the national RIA. Information gained through the RIA could be used to influence decisions in relation to whether or not to avail of a derogation or exemption from provisions of an EU Directive/Regulation in rare cases.

Oireachtas [Parliamentary] Scrutiny

4. The EU Scrutiny Act, 2002 provides the legislative basis for the scrutiny of EU Business. Guidelines have been agreed and circulated to all Departments in relation to implementation of measures set out in the Act. In relation to all measures as defined in the Act, the text of the draft measure and accompanying information note (which will have taken into account the RIA model) should be laid before both Houses of the Oireachtas. It should also be forwarded to the European Scrutiny Sub-Committee for consideration. The Sub-Committee, having considered the proposal, may agree to refer it to a Sectoral Committee of the Oireachtas if deemed necessary for further scrutiny.

5. Following completion of negotiations/scrutiny and on receipt of a new Directive The EU Co-ordinator in the Department to whom the Directive has been assigned should inform the Department of the Taoiseach, the Department of Enterprise, Trade and Employment and the Department of Foreign Affairs, giving the name of the Lead Officer with responsibility for the transposition and the deadline for completion.

Implementation Schedule

6. The Lead Officer should draw up a planning schedule for the implementation of the Directive. This should include the references for the Directive, the persons in the Department responsible, the other Departments involved (where applicable), the measures to be taken to transpose the Directive (these will have been identified in the RIA) and the planned time schedule, including any Dáil deliberations. This schedule should be forwarded to the EU Co-ordinator in the Department. The schedule should be updated and resubmitted on a monthly basis indicating where there are delays/difficulties.

Drafting of Legislation/Transposition Process

7. Preparation for drafting of legislation should start before or as soon as the Directive is published in the Official Journal of the EU. Where legislation is required to transpose the Directive, the RIA should be attached to the Memorandum to Government seeking permission to draft Heads of a Bill. This would considerably reduce the need for retrospection. Consideration as to whether implementation/transposition should be by way of primary legislation or Ministerial regulations (either pursuant to the European Communities Act 1972 or by other primary legislation which contains a specific power to implement/transpose EU legislation by regulations made under it) or through other alternatives to regulation, should be identified by the RIA.

In line with the principles of Better Regulation and the Government Decision on RIA, if the Department proposes to introduce additional regulatory changes in the legislation transposing a Directive or Regulation, the RIA should be updated as appropriate. Early consultation with the Attorney General's Office on this issue is necessary. Factors which would influence this choice would be whether indictable offences will be created as sanctions to implement/transpose the EU legislation in question (in which case, primary legislation is necessary) or whether the EU legislation contains diverse policy choices or derogations/abrogations from the EU measure itself to be adopted by the Member State (in which case primary legislation will be necessary). In transposing a Directive due account should also be taken of any views that might have been expressed by Oireachtas Committees in the Scrutiny of the draft Directive and of views expressed as part of the consultation process during the RIA.

Communication with the EU Commission

8. Departments should stay in close contact with the relevant Commission DGs when they are transposing a Directive, particularly complex Directives that require intensive consultation and primary legislation. The Commission should be made fully aware of any difficulties arising in the transposition process and the measures decided on nationally to deal with these difficulties.

Consultation with the Attorney General's Office should take place in relation to this on any legal issue as early as possible.

9. Directives that are successfully transposed through the NEMS system should be notified automatically to the Department of the Taoiseach and the Department of Foreign Affairs. Departments should keep an up-to-date record of all Directives that have been transposed.

Early Warning

10. Where EU legislation is likely to be difficult (requiring, for example, extensive consultation with interested stakeholders) and/or costly to transpose, the relevant Minister should inform Government, the Department of the Taoiseach and the Department of Foreign Affairs at least 3 months before the transposition deadline. Such issues should, in any event, have been identified in advance by the RIA. The Department of the Taoiseach will inform the ICCEUA. Departments should ensure that the timely transposition of EU Directives is embedded in their Business Planning Process and should follow Commission "Best practice" in relation to Directives that have not been transposed on time.

Infringements Imposed for Late or Incorrect Transposition

11. Where a Lead Department expects the Commission to launch infringement proceedings against Ireland, every effort should be made to have the Commission take a more political and strategic view, taking into account fully the subsidiarity principle. It is essential, at this stage, that a close working relationship with the Commission be maintained to avoid misunderstandings.

12. Infringement proceedings taken against Ireland by the EU Commission under Article 226 of the Treaty should be promptly brought to the attention of the relevant Minister and to the attention of the Department of the Taoiseach. Every effort must be made to avoid the infringement proceedings being taken to Court under Article 226. The Department responsible should consult immediately with the Attorney General's Office upon receipt of any formal notice or reasoned opinion preceding Article 226 proceedings as to any legal matter in such preliminary notification before proceedings issue. Upon receipt of formal documentation from the European Court of Justice such documentation must be sent to the Chief State Solicitor's Office immediately.

13. Where a European Court of Justice judgment is given under Article 226, a concerted effort must be made to close the matter as soon as possible and to meet the concerns of the Court. This will require close contact with the Commission. Regular reports should be provided (see below) on the efforts that are being made to resolve the matter and to avoid any action under Article 228.

14. If the Commission launches action under Article 228, the Department of the Taoiseach and the Department of Foreign Affairs should be notified immediately. The early conclusion of infringement proceedings taken against Ireland under Article 228 of the Treaty should be treated as a Departmental priority for business planning purposes. The Management Committee of the Department should include the efforts undertaken to resolve the matter as a standing item on its agenda.

Monitoring the Process

15. The Minister of State for European affairs at the Department of the Taoiseach is responsible for monitoring the transposition of all internal market and other Directives. He chairs the monthly meetings of the ICCEUA.

16. Each Department should have a designated EU Co-ordinator who is a member of the ICCEUA.

17. Each Department should operate a database for their own Directives, similar to that operated by the Department of Enterprise, Trade and Employment, so that up to date information regarding transposition is readily accessible. Up-to-date information on the progress made in transposing Directives should be publicly available on each Departmental website.

18. All Departments should submit a monthly report on the current state of play on transposition and infringement proceedings to the Department of the Taoiseach (through the

ICCEUA Co-ordinator). These details should be available from the implementation schedule submitted by the Lead Officer in each Department and /or the Departmental database (if established).

19. The Minister of State will circulate a summary of these Departmental reports to the Cabinet Committee on European Affairs, on a regular basis. The summary will highlight those Directives which are overdue and which are particularly challenging to transpose. The report will also highlight the Directives where infringement proceedings are at an advanced stage in the legal process.

Annex 5: National Indicators for European Employment Strategy

The idea of measuring and comparing performance is central to the European Employment Strategy. 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 for monitoring Employment Guideline 19 as agreed by the Employment Committee (EMCO). The data is compiled by the Department of Enterprise, Trade and Employment and is based on National Sources and the Eurostat Labour Market Policy Database. Due to methodological differences this data may not be comparable between all Member States.

Indicator Code	**Definition**	**U-25's**	**U-25's**	**Adults**	**Adults**
		Male	Fem.	Male	Fem.
19.2	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). Data based on yearly averages.	0.7%	0.7%	0.5%	0.5%
19.3	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). Data based on yearly averages.	3.3%	2.9%	2.8%	2.5%

		Male	Female	Total
19.4	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 (based on yearly averages).	20.1%	26.0%	22.0%

Annex 6: Expenditure on Employment and Training Supports

The following table shows expenditure for employment and training supports provided by FÁS, Skillnets and the Departments of Education and Science and Social and Family Affairs in 2004, 2005 and 2006.

	€000's	€000's	€000's
FÁS			
Training	**2004**	**2005**	**2006**
Apprenticeship	88,802	101,800	110,000
Traineeship	14,262	20,633	24,746
Training & Sectoral Initiatives and Sponsored Training	10,067	19,359	34,500
Evening Courses / FÁS eCollege	2033	2689	2,825
Specific Skills Training	36,408	37,985	39,127
Local Training Initiatives	21,459	26,103	27,452
Workplace Basic Education Scheme	NA	1,070	2,000
Bridging Foundation	15,142	21,863	18,278
Foundation/Progression in CTCs	35,033	38,904	43,634
Return to Work	2,850	2,684	2,789
Specialist Training Providers	42,406	44,889	47,224
Employment			
Community Employment	263,950	295,820	324,040
Job Initiative	39,056	37,549	38,740
Social Economy	39,399	30,311	NA
Job Clubs	5,702	5,319	5,500
Wage Subsidy Scheme	5,070	4,882	10,250
Supported Employment Programme	6,477	6,578	8,170
TOTAL	**€628,116**	**€698,438**	**€739,275**
Skillnets	**€5,670**	**€7,500**	**€14,000**
Department of Social and Family Affairs			
Back to Work Allowance	65,712	53,563	55,900
Part-time job incentive scheme	1,243	1,295	1,550
Back to Education Allowance	44,160	46,695	58,000
Family Income Supplement	55,812	72,152	94,500
TOTAL	**€166,927**	**€173,705**	**€209,950**
Department of Education and Science			
Youthreach	43,171	45,334	44,964
VTOS	60,346	56,981	62,000
TOTAL	**€103,517**	**€102,315**	**€106,964**