Session 2006/2007 First Report

COMMITTEE ON THE PREPARATION FOR GOVERNMENT

Report on the Economic Challenges Facing Northern Ireland

VOLUME 4
WRITTEN EVIDENCE SUBMITTED TO THE SUB-GROUP, PARTY SUBMISSIONS AND RESEARCH PAPERS

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Terms of Reference

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1. To identify the major impediments to the development of the economy in Northern Ireland

2. To consider fiscal incentives that may promote foreign direct investment and indigenous investment.

3. To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.

To report to the Committee on the Preparation for Government by 25 August 2006.

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Economic Challenges facing Northern Ireland

1. **To identify the major impediments to the development of the economy in Northern Ireland.**

Location

Northern Ireland is isolated on the edge of the UK and the edge of Europe. This has major implications when trying to comply with national and European legislation, forcing business in Northern Ireland to pay more to remain competitive with European counterparts. For example, shipment costs of renewable energy technologies manufactured in mainland Europe, to Northern Ireland are more expensive than to GB or other European locations.

Size

Northern Ireland has a relatively small geographic area and population. This makes it harder in many ways for Northern Ireland as a distinct entity, to be self-sufficient. European legislation promotes self-sufficiency. Northern Ireland has no indigenous fossil fuels (other than lignite), and is reliant on imported fuels to generate the majority of electricity and domestic space-heating.

Brain drain

Without an improved employer base in NI, many graduates leave to GB in search of employment. This is a self-perpetuating situation, partly caused by a negative perception of NI compared with other locations.

Infrastructure

The proximity principle, enshrined in European legislation, dictates that waste produced should be dealt with as close as possible to the location it was generated. Northern Ireland has struggled to develop the necessary waste management infrastructure to deal with the quantities of waste produced in NI. This argument also applies to energy, that it should be produced as close as possible to the point of use.

Perception

Northern Ireland does not have the reputation abroad which is enjoyed by GB or RoI. This limits investment.

2. **To consider fiscal incentives that may promote foreign direct investment and indigenous investment.**

Greater development of renewable energy moves NI towards self-sufficiency.

Promotion of the renewable energy assets of NI. Opening up of the assets of Iraq has triggered investment there. Could the same ideas be applied to wave/tidal/offshore wind/biomass resources in NI?

Development of a Northern Ireland Development Plan, similar to the RoI NDP as a guide for foreign and local investors. All subsequent governments in NI would then follow the Plan, providing a greater sense of investment security.

3. **To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.**

Developing the potential of distributed, embedded generation of electricity, alleviating the demand on imported fossil fuels.

Northern Ireland has a desire to move towards self-sufficiency. For example, early indications are that the EREF Household Fund as announced by Peter Hain has received a majority of applications for pellet boilers. This is explained by rising oil prices and the feeling within the population of Northern Ireland that it is unwise to be subject to global variations in prices beyond our control. Northern Ireland is literally at the end of the pipe for gas and oil, and this does not sit well with the population.

The issues of fuel security, rocketing energy prices and the impending threat from climate change have placed an increased emphasis on the availability of renewable sources of energy and it has instilled a renewed focus on what resources are available in NI and how we should deploy them. There is clearly an opportunity to bolster the Secretary of State's EREF and integrate renewable energy development into any economic regeneration programme.

Renewable Energy Technology Issues relevant to Economic Development in Northern Ireland

Andy McCrea
Director, Action Renewables

Further to our previous brief submission;

The following issues are relevant to the development of renewable energy, particularly in relation to business applications and investments;

1. R&D

Marine Technologies

Ireland as an island and Northern Ireland in particular, is very well placed from a resource perspective, in respect of marine technology development (specifically with marine current tidal conversion devices). These devices are not yet at the fully commercial stage and would need investment and development over the next five to ten years.

Previous work done in Northern Ireland universities, notably in QUB, has placed NI at the forefront of world performance from a knowledge base. Current studies underway at Strangford Lough with a tidal energy MCT device, will also give a greater understanding of the energy in this resource and how it may be converted to provide significant amounts of renewable electricity.

Similarly, Ireland as an island and the west coast of the island in particular (and perhaps in very limited areas around NI), is very well placed from a wave energy resource perspective. Considerable effort has already been expended on wave energy conversion devices, particularly at QUB although they are not yet at the fully commercial stage and would need investment and development over the next five to ten years. Previous work done in NI universities, again notably in QUB (by Professors Adrian Long and Trevor Whittaker), has placed NI at the forefront of world performance from a knowledge base. A number of R&D seeded companies have recently been established to further develop these devices.

Biomass Technologies

It is widely recognised that Northern Ireland has a good climate, appropriate soils and increasingly, an excellent knowledge base for the exploitation and greater deployment of biomass technologies. There are a number of streams to this technology including coppiced willow, and purpose-grown energy crops (oil seed rape & perhaps Miscanthus), although wood waste from a range of sources grain and other farm produce can be appropriate fuels. There are significant renewable heat opportunities and perhaps a more limited biomass electricity opportunity (through gasification). A significant knowledge base and some excellent early commercial experience of these technologies exists locally.

Energy From Waste

EfW holds significant potential for NI and there are also a number of opportunities around raw farm wastes (and food processing wastes) using anaerobic digester plants.

2. **Skills and Education**

Action Renewables in partnership with SEI in RoI have developed a major renewable energy skills initiative called the Renewable Energy Installer Academy (REIA). We have also recently concluded a RE jobs prospects report for NI.

There are significant gaps in this market at present and an over-arching strategy which recognises the opportunities and which puts in place the required skills training framework needs to be developed as soon as possible.

3. **Renewable energy based NI companies**

There are a number of companies based in NI which have taken the lead in the manufacture and servicing of renewable technologies;

Thermomax (Bangor) – solar thermal hot water panels manufacture, principal markets Spain, Germany, Europe.

Copelands (Cookstown) – Heat pump design and manufacture of pumps/compressors for heat pumps used widely across Europe.

Harland & Wolff – have recently won a sub-contract to deliver the supply and construction logistics for the Barrow off-shore wind farm. This is a thriving business, particularly in UK waters.

B9 O&M (Larne) – Operation and maintenance of on-shore and off-shore wind farms.

There are a number of major renewable energy trading companies which operate or originate from a local NI base, including Energia (Viridian), Airtricity and ESBI.

4. **Business Opportunities for Renewables**

Tax/Buisiness Incentives

There are currently no fiscal encouragement for renewable technologies investment in business, although clearly there is significant scope for this, for example tax breaks, direct taxation relief, NIC reductions or rates rebates. These measures would be particularly attractive to SMEs which form the back bone of commerce in NI. There may be opportunities within the EREF (see below) for business and commerce to obtain support for the installation of renewables.

Advice on the benefits and use of renewable technology in business is a primary function of the Carbon Trust and Invest Northern Ireland.

5. **Environment and Renewable Energy Fund**

In February of this year the Secretary of State for Northern Ireland announced a new fund with £59.2m available for investment in renewable energy here in NI.

There are several opportunities within this fund which would benefit business/industry;

Under R&D. There is £1.4m available from August 2006 for the encouragement of commercial, industrial and agricultural premises. INI are currently developing an interest free loan for companies wishing to install renewable technologies (up to £250k per project). There is also £6m available to develop energy flagship projects (possibly EfW). There are also significant funds available in the R&D section of the fund to develop the agri-food and public sector uptake of renewable technologies.

Building Market Capacity. £2.5m is available for building infrastructure and developing the supply chain for these technologies.

Accelerated Deployment. £35m is available for a range of projects in the domestic, fuel poor and public sector arenas. Clearly there are significant skills and savings challenges in this work with associated employment and market development potential.

There is a further £6.5m available for underpinning knowledge and raising awareness.

Association of NI Colleges

Paper to the Sub-Group on Economic Challenges

Introduction and Context

1. The Association of Northern Ireland Colleges (ANIC) is the membership body for all 16 colleges and institutes of further and higher education in Northern Ireland, providing the voice of further education to stakeholders as well as a range of services to member colleges. ANIC welcomes the opportunity to present its views on the economic challenges facing Northern Ireland.

2. Colleges in Northern Ireland are in the midst of a major change programme, directed by the Department for Employment and Learning (DEL), with the current 16 colleges merging into 6 larger, area-based colleges by August 2007. In addition to this structural change, colleges will have an enhanced economic focus, which is detailed in DEL's Further Education Means Business strategic document. Further Education (FE) is committed to serving the needs of people, communities and the economy in Northern Ireland through excellent, innovative and appropriate provision.

3. Over the last number of years ANIC and its member colleges have developed increasingly strong relationships with the business community, economic agencies including Invest NI and its enterprise partners through a range of initiatives. Therefore while this contribution is forward-looking, it is based on recent and developing college work in response to the strategic direction set by DEL which was in response to the work of the NI Assembly Committee for Employment and Learning.

4. This response addresses the three questions within the terms of reference for the Sub-Group. Further information, if required, can be obtained from John D'Arcy, Chief Executive, ANIC, 3 The Sidings Office Park, Antrim Road, Lisburn, BT27 4LD. (E-mail: john.darcy@anic.ac.uk; tel: 02892 627512).

(i) To identify the major impediments to the development of the economy in Northern Ireland

5 ANIC recognises that Northern Ireland's economy has improved over the recent past. However, international comparisons indicate that productivity and competitiveness is weaker than other parts of the UK, which in turn is challenged by other nations within Europe and further afield. Emerging competition from other regions, particularly Asia, poses a significant challenge for the Northern Ireland economy in the context of an increasingly global market for manufactured products.

6 ANIC supports the view of the business community and government that the Northern Ireland economy must develop strengths in added value and innovative work, particularly in what is commonly termed "the knowledge economy". In order to achieve progress in this area, it is essential that Northern Ireland has a workforce with high level and appropriate skills.

7 There are, however, a number of impediments facing Northern Ireland's economy in developing and achieving this aspiration. These include:

- the scale of the problem of poor literacy and numeracy skills in Northern Ireland poses a significant issue for a region seeking to build expertise and credibility as a knowledge economy. While the Essential Skills programme has made significant progress in tackling these problems, it is critical that all efforts are made at every level of the education system to reduce the rate of poor literacy and numeracy among our population;
- Northern Ireland has also some distance to travel in order to catch up with other regions in terms of those members of the workforce qualified to level 2 and level 3. This has implications for businesses in terms of their commitment to skilling, upskilling and reskilling as well as for colleges in terms of provision;
- the pace of technological change and its demand for new skills puts pressure on business and providers to respond. Increased articulation of needs is required and it is expected that the implementation of the Further Education Means Business programme should address this at a range of levels. Flexibility must be at the heart of future provision in order to ensure that businesses in Northern Ireland can respond to market opportunities and challenges.

8 Colleges across Northern Ireland, individually and collaboratively, have actively sought to address many of these issues. For example, colleges have:

- provided a significant proportion of Essential Skills training which has helped addressed literacy and numeracy issues; and
- increased their active engagement with employers through training provision as well exploiting the Centres of Excellence in priority skills areas and providing additional business development services, including prototyping and business modelling.

(ii) To consider fiscal incentives that may promote foreign direct investment and indigenous investment

9 ANIC, and its colleges, have worked actively with the DEL since 2002/2003 in response to its Review of Further Education to actively consider how best the college system can support economic development and social cohesion in Northern Ireland. Examples from the USA have indicated the importance of workforce development as a key agent for both foreign direct investment and indigenous investment. ANIC has fostered relationships with the North Carolina Community College System, with active leadership from DEL, and also with the North East Minnesota Higher Education District following work as part of a Peace II funded project involved all 16 Northern Ireland Colleges.

10 ANIC has just completed a two-year Peace II funded project targeting Small to Medium sized Enterprises (SMEs). Involving all 16 colleges, the SMILE (Small to Medium Innovative

Learning Enterprises) programme provided business-responsive training and development interventions to a core group of businesses, capable of growth but often not involved in such activities. This project exceeded its target for the number of SMEs engaged by about 70% (598 SMEs were engaged) and it exceeded its target for the number of learners achieving a qualification. This project demonstrated that despite the widely reported reluctance of small businesses actively to engage in training, the SMILE project has shown that it is possible for colleges to help small businesses, with the proviso that the SME market is not homogeneous or responsive to a “one size fits all” approach. This type of college activity, which is different from the currently funded model of classroom-based activity, must be supported in the emerging DEL model for further education so that colleges are financially supported in their provision of flexible and innovative interventions.

11 ANIC has also just completed an enterprise project funded by Peace II to attempt to embed enterprise and entrepreneurship within further education. The E-FEAR (Entrepreneurship – Further Education Awareness Raising) project involved 10 colleges and sought to move students from awareness to exploration of potential enterprise. Support from colleges has helped participants to explore their ideas with other stakeholders. It is noteworthy that the winners of the 2006 ANIC E-FEAR Entrepreneurs of the Year from Castlereagh College have embarked upon a Start a Business Programme with their local Enterprise Agency as a result of the support received through the programme and the college.

12 Working with DEL and in response to employers and Invest NI, ANIC has established an IT Professional Academy centred initially in three colleges (Belfast Institute, North Down and Ards Institute and North West Institute) to address concerns about the quantity of suitably qualified IT personnel. Stage one is focussing on a conversion programme for non-IT graduates with a second stage in the Academy looking towards continuous professional development for IT employees. This joined-up approach to spotting needs within a key niche area should be highlighted as best practice and as an exemplar for areas of the economy. Such activities provide a useful hook for potential investors as well as providing a resource for indigenous growth. Other areas in which colleges have proactively developed capacity include financial services (Belfast Institute), call-centre operations (Armagh College), interactive computer entertainment (North West Institute), renewable energy (Omagh College and East Down Institute), business incubation and innovation (Newry and Kilkeel Institute), automotive and robotics (North East Institute) product development and prototyping (North Down and Ards Institute), public sector staff development (Causeway Institute and Upper Bann Institute), craft sector development (Limavady College), migrant workers support (East Tyrone College), community development (East Antrim Institute, Lisburn Institute, Fermanagh College and Castlereagh College). This list is not exhaustive but rather indicative of colleges’ proactive attempts to support economic development.

13 The Department for Employment and Learning, as a pilot strand of its Further Education Means Business, funded ANIC to recruit two Sectoral Development Advisers to improve the interface between employers and colleges in two areas – Engineering and Software Engineering. This project is currently being evaluated but initial feedback indicates that these roles have provided a consolidated, collaborative and strategic facility within colleges for employers and other agencies, such as Invest NI. Key development work has been achieved with software

employers, engineering employers, the Quarry Products Association, Northern Ireland Polymers Association, universities, the Business Alliance and individual employers.

14 Therefore, ANIC proposes that support packages to assist business develop are essential. It is timely that DEL is reviewing the funding model for further education as a result of its FE Means Business strategy. It is essential that colleges are funded in a manner which allows them the flexibility to meet the needs of business in an innovative and responsive manner.

(iii) To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.

15 Northern Ireland's colleges are based in communities across Northern Ireland. Although Northern Ireland is geographically a small region, it is clear that the various sub-regions and communities face different challenges and needs and often have different opportunities for investment. A strong message from colleges would be an economic package / peace dividend would recognise these differences and would therefore offer a range of options to develop economies in areas where traditional, and often rural, economies have reduced. The Workforce Development Forums being developed by DEL would have an active role in identifying key sub-regional and local factors which could potentially be missed by a Northern Ireland wide "one size fits all" approach.

16 The new sector skills councils will provide an insight into the development needs for work-forces across a range of occupational sectors. It will be important to ensure that Northern Ireland's needs are clearly reflected in the sector skills agreement which emerge from their work.

17 Colleges have had an increasing relationship with Invest NI and this should continue to be explored actively from start-up to business growth. Consideration should be given to different types of business growth services which currently may not be available and funded through Invest NI and colleges.

18 Further Education is increasingly working with universities in assisting businesses grow. Clearly the universities have a well established research mandate, ANIC has proposed to key stakeholders that colleges have a key role in technology transfer and the application of research findings to business. In looking at the relationships, it could be viewed that universities focus might be described as "R&d" (leading edge research, some development) with colleges having a focus on "r&D" (applied research, large amount of development). The geographic network of college campuses and sites means that the region is well-served in this type of work. The relationships between colleges and universities will be enhanced through DEL's FE-HE Collaboration Fund. A joint bid from colleges and universities is being developed for a three-year programme – the development of the opportunities from this work should be identified as early as possible.

BT/Northern Ireland Chamber of Commerce and Industry

BT/ NICCI Business Survey - Northern Ireland's Biggest Business Survey

Alan

As promised here are the details of the BT/NICCI Business Survey and I have highlighted the sections that are most relevant to your Committee.

Every quarter BT and the NI Chamber of Commerce & Industry carry out Northern Ireland's biggest business confidence survey. Some 2,000 businesses across all sectors of the local economy are asked to pass judgement on their own prospects for growth and employment and the climate affecting business confidence. Telephone interviews cover areas such as the:

- Current trading conditions
- Prospects for the next quarter
- Employment levels
- Barriers to growth
- Effectiveness of government and agencies in assisting local businesses to grow
- Impact of broadband for business and export growth
- Impact of the suspension of devolved government for local businesses.

With such a large survey sample this joint quarterly business survey is an important barometer of business confidence and prospects amongst both large businesses and the important SME sector. The survey has in fact become one of the most reliable yardsticks of Northern Ireland's economic health.

While the survey reveals much of interest to anyone seeking information on the Northern Ireland economy the survey has specific sections on what Government could do to help companies generate more activities (slides 35-38); the Influence of Assembly Suspension on Business Prospects (slides 39-41); and the Supportiveness of Local Politicians in helping Northern Ireland Business (slides 42-44). The impact of new technology can be gauged by the changes in attitude to broadband, the internet and communications services (slides 47-58).

BT and the Chamber also produce an annual Business Monitor, providing insightful and decision-critical economic information. The second edition of this is published on 20th September 2006.

Members of the sub-committee will be invited to attend the launch of the Business Monitor and we hope as many of them as possible can attend.

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Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY

BT

THE NORTHERN IRELAND

QUARTERLY BUSINESS OPINION MONITOR

July 2004 – April 2006

Millward Brown Ulster

Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY

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BACKGROUND

Wave 1	28th June – 9th July 2004 (Q1)
Wave 2	4th October – 15th October 2004 (Q2)
Wave 3	24th January – 4th February 2005 (Q3)
Wave 4	4th April – 15th April 2005 (Q4)
Wave 5	27th June – 8th July 2005 (Q1)
Wave 6	14th October – 22nd October 2005 (Q2)
Wave 7	9th January – 20th January 2006 (Q3)
Wave 8	5th April – 17th April 2006 (Q4)

- All interviews conducted via telephone, from the Millward Brown Ulster Telephone Centre in Belfast
- Total sample size: 500 respondents per wave
  - Charts based on Moving Annual Totals (MAT's – Base 2000)
- Sample representative of Northern Ireland business marketplace
- All respondents at most senior level in organisation
  - CEO / MD / Proprietor

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Executive Summary

- As experienced during the first three quarters of 2005 / 2006, excluding seasonal variations, under a third (29%) had increased their business turnover during January – March 2006. Almost half (47%) of businesses stated their turnover had remained the same, with a consistent trend amongst those who had recorded a decline in their business turnover over the quarter (Q4 =19%). Optimism however for the incoming three month period (April – June 2006) was noticeably encouraging, with over half (55%) expecting their business turnover to increase, marginally exceeding the very bullish trends recorded at this time last year.

- The proportion of businesses recording an increase in business profitability remained consistent with trends experienced during the last quarter (25%). However, as with business turnover, there was a significant improvement on expectation, with almost half (45%) expecting to increase business profitability over the next three month period.

- The proportion of businesses who had increased their employee levels remained at 11%. Almost 1 in 10 (9%) businesses stated they had reduced their employee capacity during the quarter, with the vast majority (74%) of business employee levels remaining the same. After a decline during the last two quarters, expectations of increased staffing levels over the next three months showed noticeable improvement. (Q1 = 18%; Q2 = 14%; Q3 = 11%; Q4 = 19%)

- When afforded the opportunity to cite the main issues which have had a negative influence on business over the past three months, 1 in 10 (10%) businesses cited the competition within the marketplace, with slightly smaller proportions spontaneously referring to the weather conditions during the January – March'06 (7%), and holidays and seasonal factors (7%) coming off the back of the Christmas period. Other negative influences cited were Government policy, legislation and red tape (6%), rates (5%), and increased prices (5%).
- In terms of what Government could do to help Northern Ireland companies generate more business, the most frequently cited response mirrored the last two quarters, with over 1 in 10 (13%) spontaneously citing the need for reduced taxation. Others wanted to see a reduction in paperwork and legislation (12%), more stability within the economy (10%), and Government attracting more people and tourism to the Province (6%).
- Over the course of the year (April'05 – April'06), almost three quarters (73%) claimed that the suspension of the Northern Ireland Assembly had made no difference to their business prospects, with only 1% who felt the suspension had actually made things better. Over 1 in 5 (21%) businesses stated the suspension had made their business prospects worse, a perception which continued to be noticeably more prevalent within the agriculture, forestry and fishing sector (31%).

- With regard to local politicians, during quarter 4 almost 3 in 10 (29%) believed they were supportive in helping Northern Ireland business, showing a marginal improvement on this period last year (April'05 = 25%). Almost 2 in 5 (38%) perceived local politicians as unsupportive, with 18% describing them as 'fairly unsupportive' and 20% as 'very unsupportive'.
- Over the past year (April'05 – April'06), 3 in 5 (60%) stated there were no business support organisations which could assist their business, a perception which was especially prevalent within the Service Retail and Distribution (66%), and Construction / Tradesmen (65%) sectors. Just over 1 in 10 (11%) however made reference to Invest NI, with others citing the Federation for Small Business (5%), and the Northern Ireland Chamber of Commerce and Industry (5%).
- Throughout the year, Invest NI had the highest level of prompted awareness (71%) of the business support organisations, closely followed by the Northern Ireland Chamber of Commerce and Industry (67%), the Federation of Small Businesses (62%), and Enterprise NI (55%).

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- Consolidated results over the year period (April'05 – April'06) revealed that some 15% of businesses regarded NICCI as effective in assisting local businesses, with similar proportions described it as ineffective (12%). Large proportions however, were unable to volunteer an opinion as to the effectiveness of any of the business support organisations, suggesting that interaction with these organisations continues to be very tenuous, or even non-existent. This trend was most prevalent for the IOD (74%), CBI (72%), InterTrade Ireland (74%),and Enterprise NI (67%).
- Just over a quarter (26%) of Northern Ireland business respondents were in favour of the UK joining the Euro now, with over 1 in 5 (21%) adding further support by claiming the UK should join, but only when conditions were right. Over 2 in 5 (41%) stated the UK should never join the Euro, leaving just over 1 in 10 (12%) still undecided. Opposition to the UK joining the Euro was more prevalent amongst those in the agriculture sector (50%).
- Almost three quarters (72%) of businesses have access to the internet, with access being significantly higher amongst larger organisations (1 - 10 employees = 70%; 26+ employees = 85%). Of this proportion, Broadband access has increased to 71%, with 2 in 5 (20%) still using dial up access. The main reasons for not having internet access revolved round a perceived lack of benefit to the business (73%), reluctance to go through the connection process (5%) and lack of knowledge (3%). A further (4%) are in the process of getting connected.

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- Almost a quarter (24%) of those without internet access stated they would be likely to subscribe to the internet in the future. Of this proportion, almost two thirds (64%) stated they would be likely to subscribe to Broadband at some stage in the future.
- Half (50%) of those businesses currently accessing the internet but not via Broadband, stated they would be likely to subscribe to Broadband in the future.
- Of those who stated they were likely to subscribe to the internet in the future, their main motivation for doing so was a perception that all firms were going this way (23%), as well as a potential need to depend on it for business efficiency in years to come (24%).
- Business respondents with Broadband access continued to cite speed of internet access (68%) as the main benefit of Broadband to their business, followed by always being on-line (no dial up access - 15%), generally having more control (12%) and being able to use the phone and internet at the same time (9%).
- The most important attribute to businesses when choosing a telecom provider or business call package was price (37%), followed by reliability of service (31%), a one stop shop for all telecoms needs (9%), one bill for calls and line rental (8%), and having one single point of contact for all enquiries (5%).

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- Almost half (47%) stated that not having an All Ireland Mobile Roaming Rate had little impact on their business, as they rarely travelled or conducted business in ROI. Over 1 in 10 (15%) claimed it had significant impact on their business as they were located in a area where roaming into ROI networks was common place. Just under 1 in 10 (9%) businesses cited this was a drain on their mobile costs as large proportions of their business was conducted in ROI.
- The most appealing options to businesses when deciding upon a mobile service provider were free calls between company mobiles (46%), free calls from NI when travelling to ROI (34%), locally based customer service (28%), and free handsets or cash back options when renewing a contract (27%).

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Business Conditions

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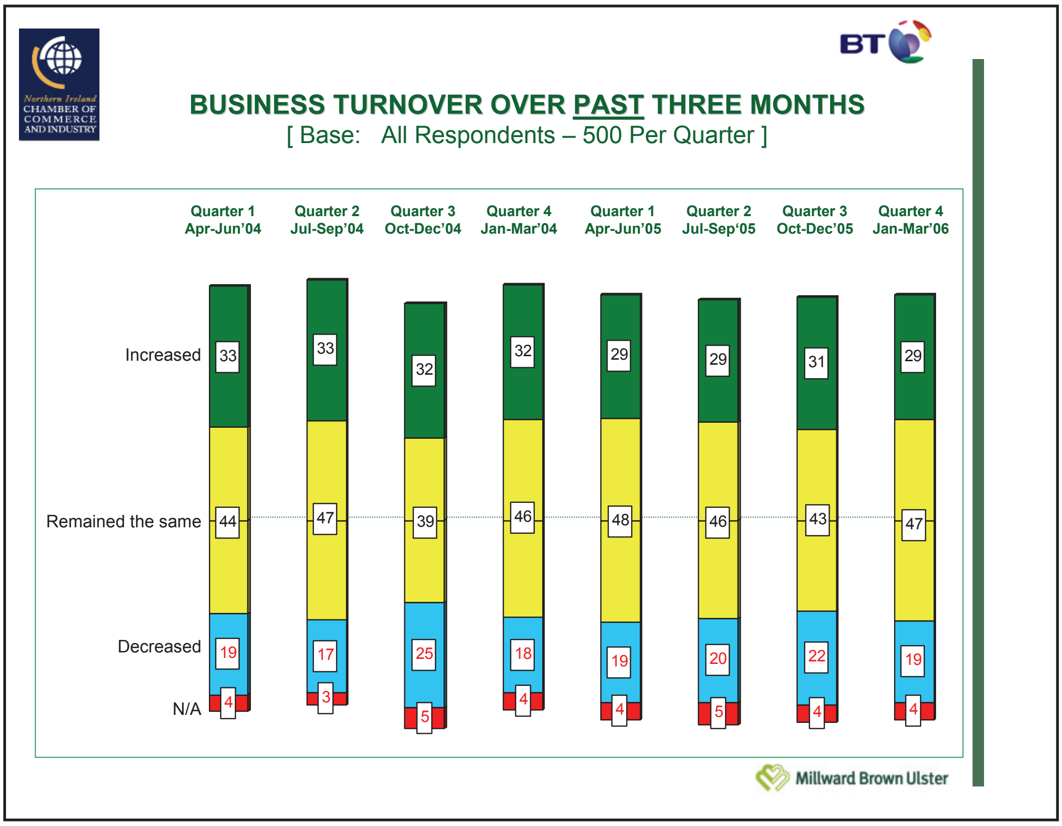
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BUSINESS TURNOVER OVER PAST THREE MONTHS
[Base: All Respondents – 500 Per Quarter]
Quarter 1 Apr-Jun'04
Quarter 2 Jul-Sep'04
Quarter 3 Oct-Dec'04
Quarter 4 Jan-Mar'04
Quarter 1 Apr-Jun'05
Quarter 2 Jul-Sep'05
Quarter 3 Oct-Dec'05
Quarter 4 Jan-Mar'06
Increased
33 33 32 32 29 29 31 29
Remained the same
44 47 39 46 48 46 43 47
Decreased
19 17 25 18 19 20 22 19
N/A
4 3 5 4 4 5 4 4
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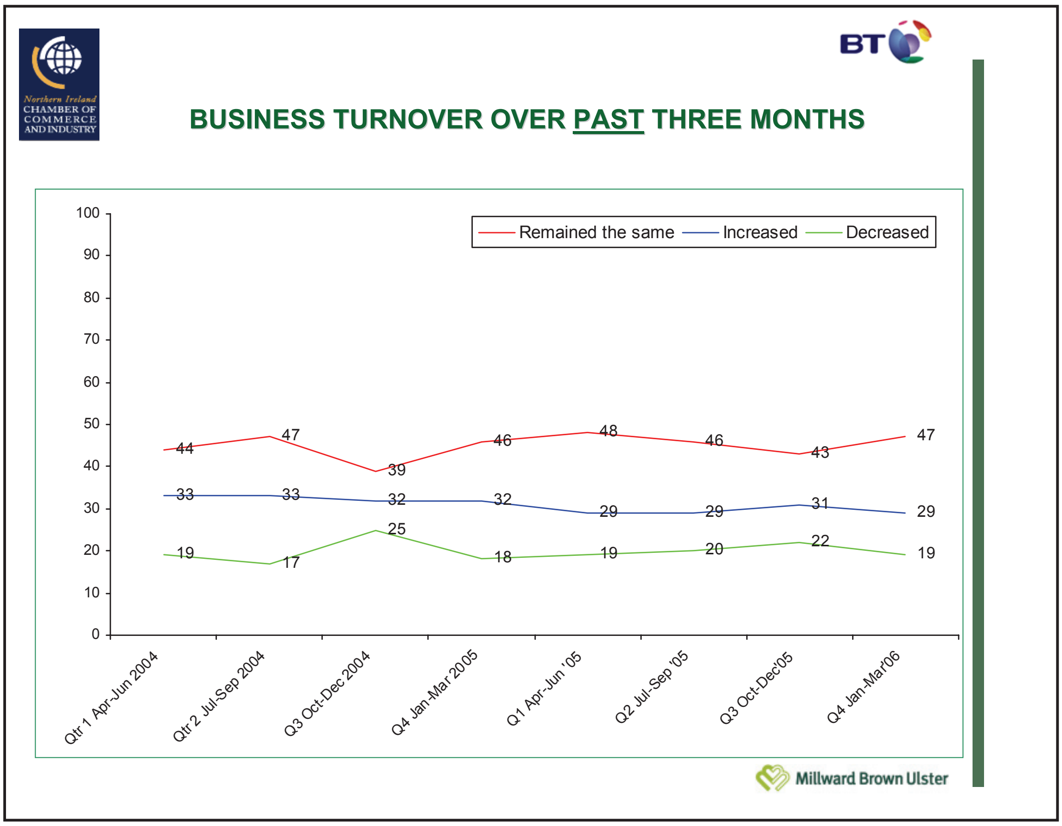
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BUSINESS TURNOVER OVER PAST THREE MONTHS
Remained the same
Increased
Decreased
100
90
80
70
60
50
40
30
20
10
0
44 47 39 46 48 46 43 47
33 33 32 32 29 29 31 29
19 17 25 18 19 20 22 19
Qtr 1 Apr-Jun 2004
Qtr 2 Jul-Sep 2004
Q3 Oct-Dec 2004
Q4 Jan-Mar 2005
Q1 Apr-Jun '05
Q2 Jul-Sep '05
Q3 Oct-Dec'05
Q4 Jan-Mar'06
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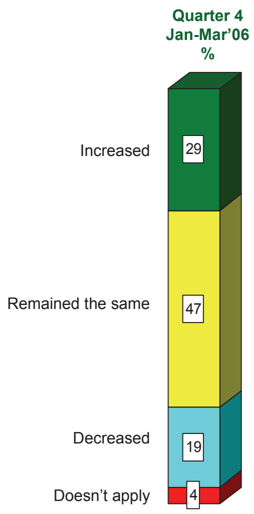
BUSINESS TURNOVER OVER PAST THREE MONTHS BY SECTOR

[Base: All Respondents - 500]



SECTOR

*Small bases

	Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service – Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other Services
n =	35* %	65 %	50 %	45* %	45* %	170 %	90 %
Increased	10	30	26	42	35	31	24
Remained the same	60	45	49	42	44	47	50
Decreased	30	23	23	14	18	18	15
Doesn't apply	0	2	2	2	4	4	11

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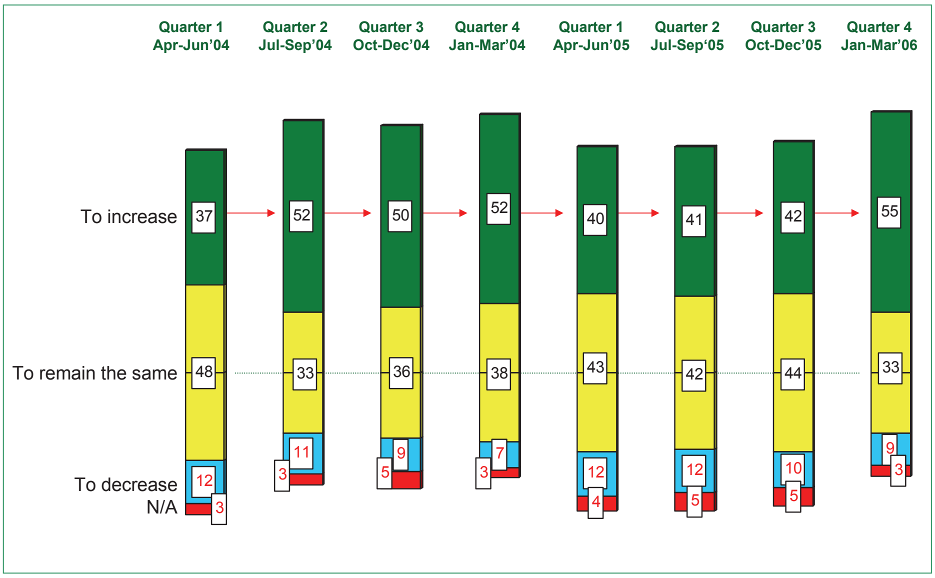
EXPECTATIONS OF BUSINESS TURNOVER OVER NEXT THREE MONTHS

[Base: All Respondents – 500 Per Quarter]



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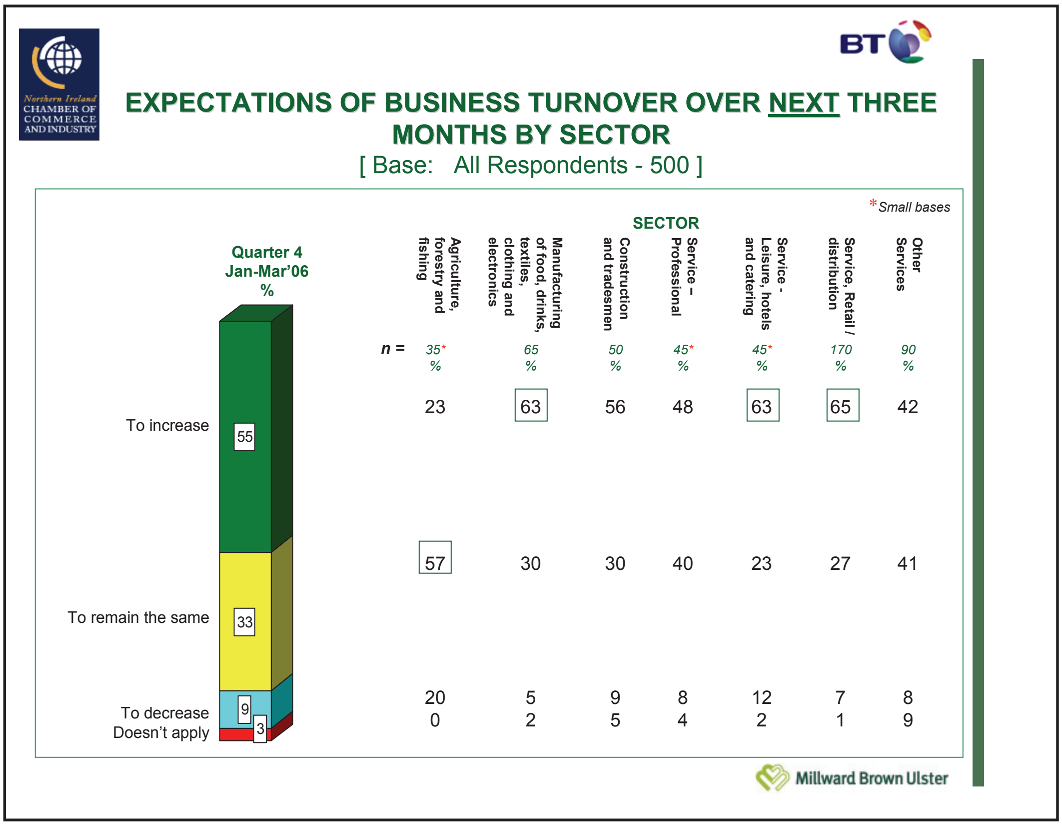
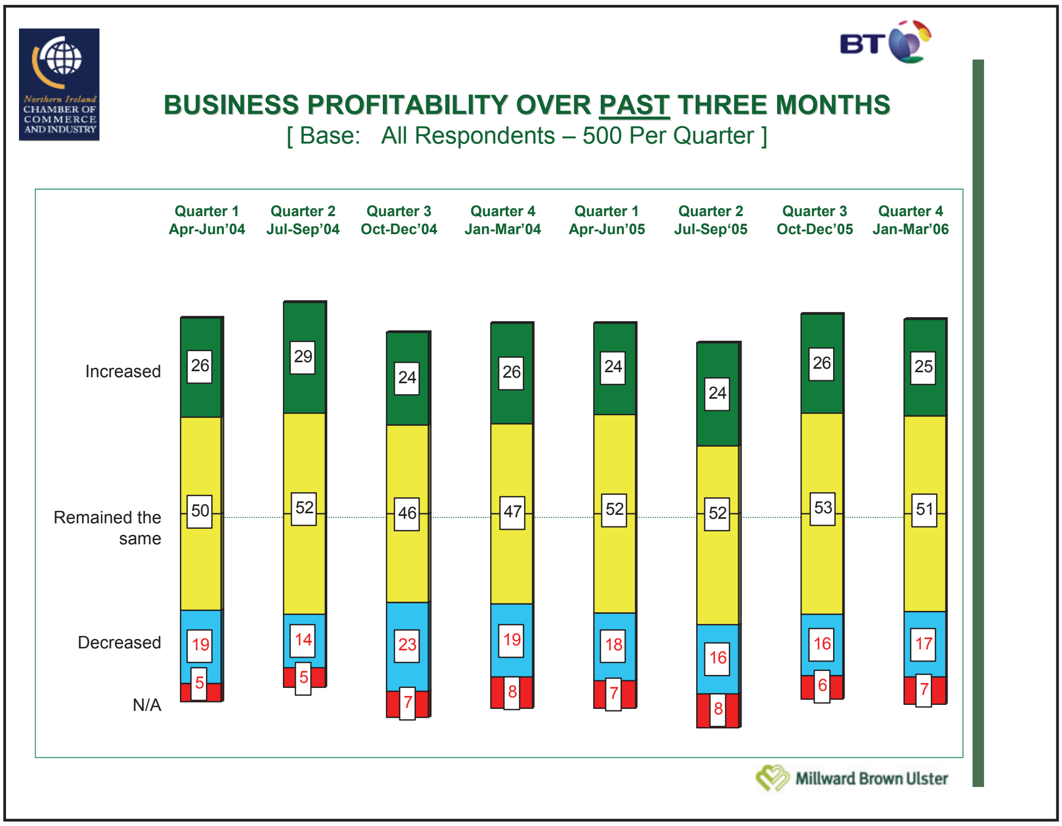
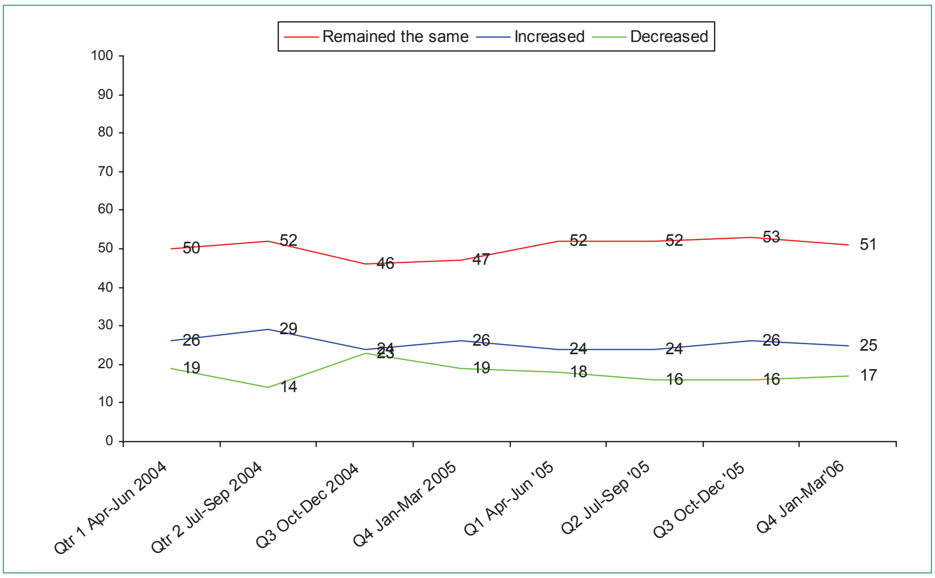


EXPECTATIONS OF BUSINESS TURNOVER OVER NEXT THREE MONTHS BY SECTOR
[Base: All Respondents - 500]
*Small bases
SECTOR
Quarter 4 Jan-Mar'06 %
Agriculture, forestry and fishing
Manufacturing of food, drinks, textiles, clothing and electronics
Construction and tradesmen
Service – Professional
Service - Leisure, hotels and catering
Service, Retail / distribution
Other Services
n = 35* % 65 % 50 % 45* % 45* % 170 % 90 %
To increase 55 23 63 56 48 63 65 42
To remain the same 33 57 30 30 40 23 27 41
To decrease 9 20 5 9 8 12 7 8
Doesn't apply 3 0 2 5 4 2 1 9
Millward Brown Ulster



BUSINESS PROFITABILITY OVER PAST THREE MONTHS
[Base: All Respondents – 500 Per Quarter]
Quarter 1 Apr-Jun'04
Quarter 2 Jul-Sep'04
Quarter 3 Oct-Dec'04
Quarter 4 Jan-Mar'04
Quarter 1 Apr-Jun'05
Quarter 2 Jul-Sep'05
Quarter 3 Oct-Dec'05
Quarter 4 Jan-Mar'06
Increased 26 29 24 26 24 24 26 25
Remained the same 50 52 46 47 52 52 53 51
Decreased 19 14 23 19 18 16 16 17
N/A 5 5 7 8 7 8 6 7
Millward Brown Ulster

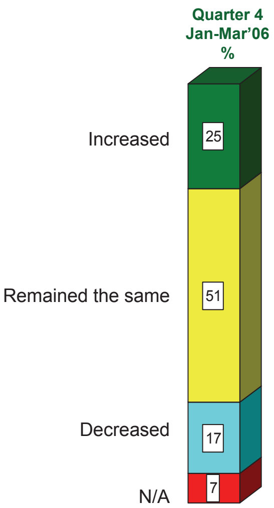
BUSINESS PROFITABILITY OVER PAST THREE MONTHS



Millward Brown Ulster

BUSINESS PROFITABILITY OVER PAST THREE MONTHS BY SECTOR

[Base: All Respondents - 500]



SECTOR

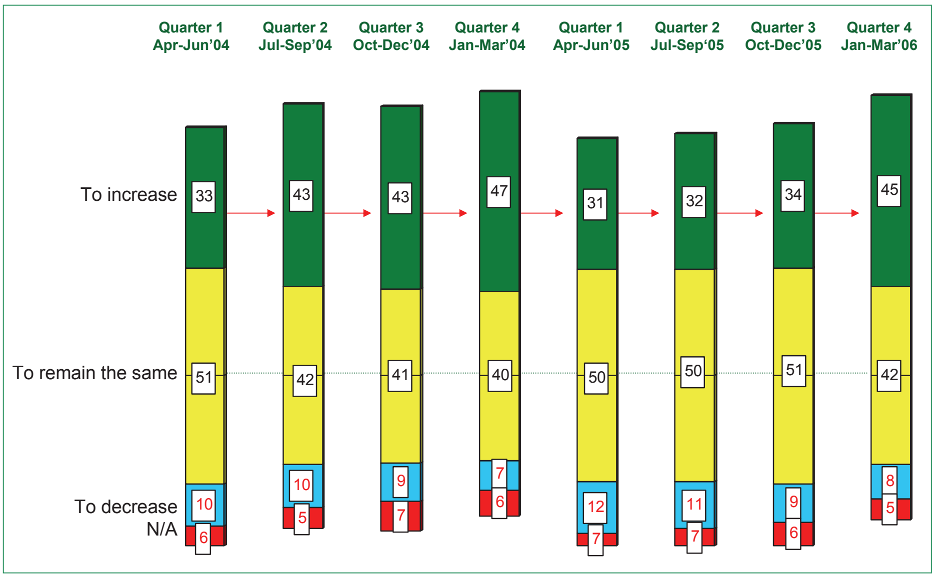
*Small bases

	Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service – Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other Services
n =	35*	65	50	45*	45*	170	90
	%	%	%	%	%	%	%
Increased	20	25	19	36	26	23	25
Remained the same	57	46	60	40	53	54	48
Decreased	23	27	19	12	18	16	12
N/A	0	2	2	12	4	6	15

Millward Brown Ulster

EXPECTATIONS OF BUSINESS PROFITABILITY OVER NEXT THREE MONTHS

[Base: All Respondents – 500 Per Quarter]

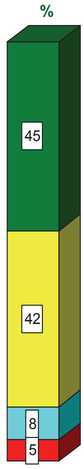


Millward Brown Ulster

EXPECTATIONS OF BUSINESS PROFITABILITY OVER NEXT THREE MONTHS BY SECTOR

[Base: All Respondents - 500]

Quarter 4 Jan-Mar'06 %

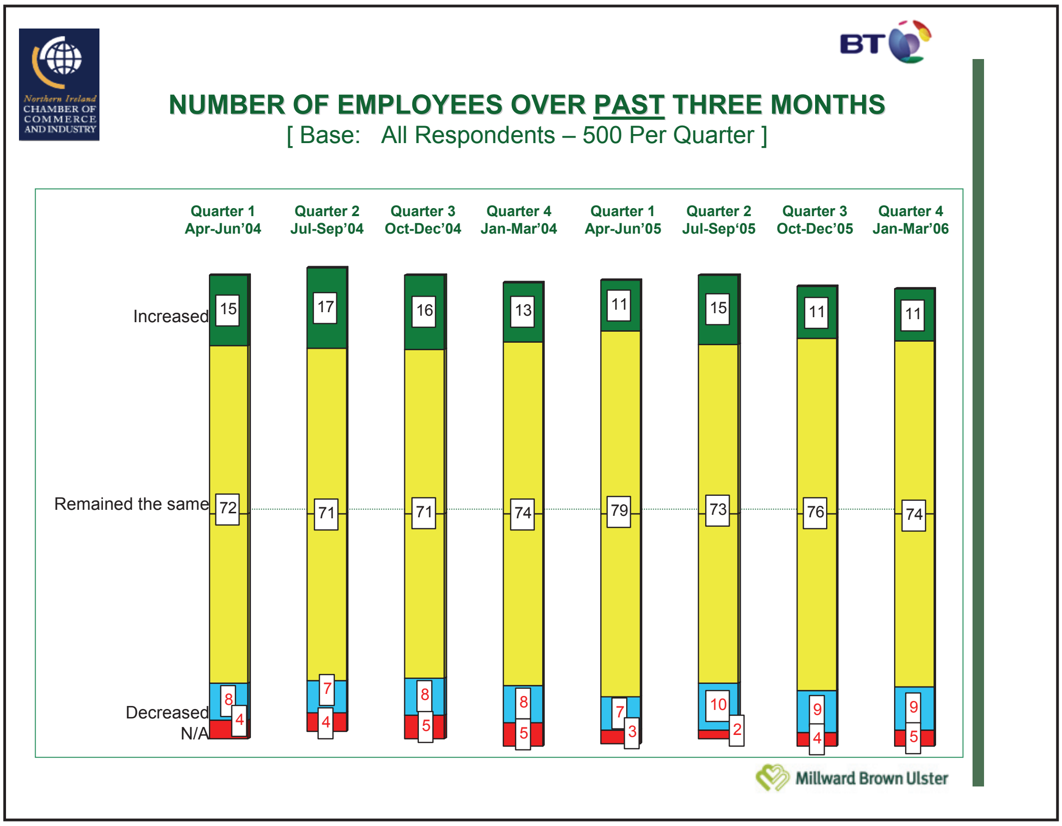


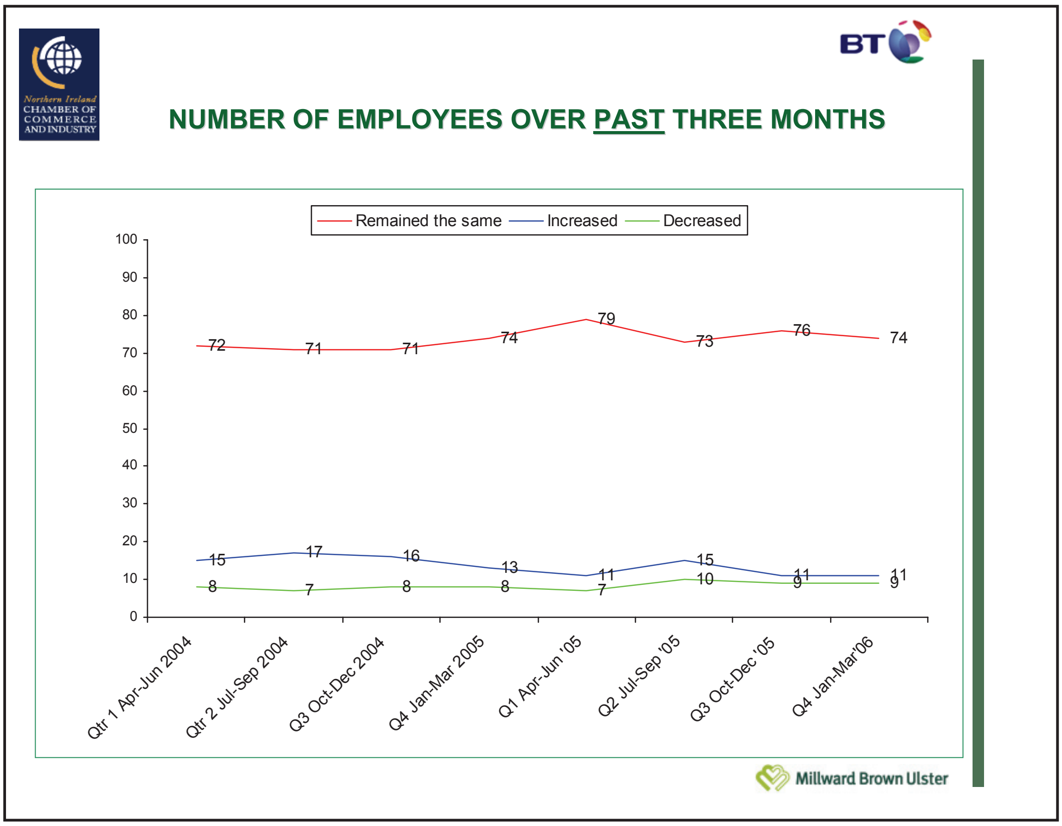
SECTOR

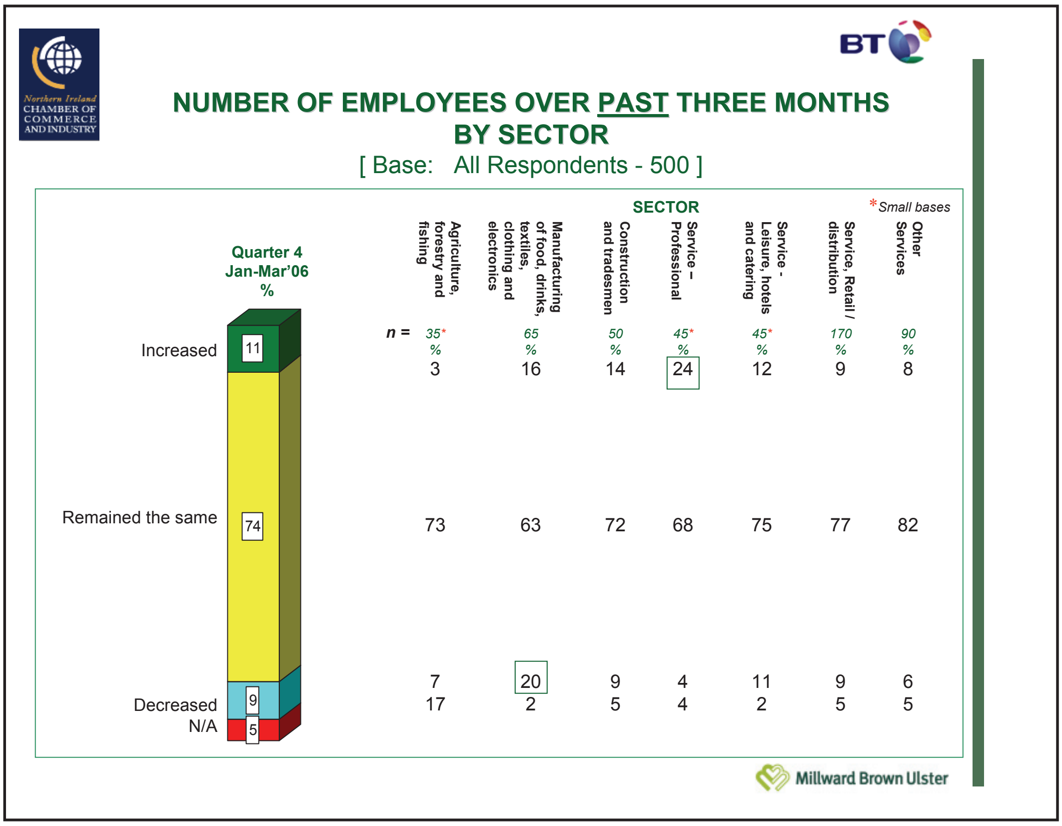
*Small bases

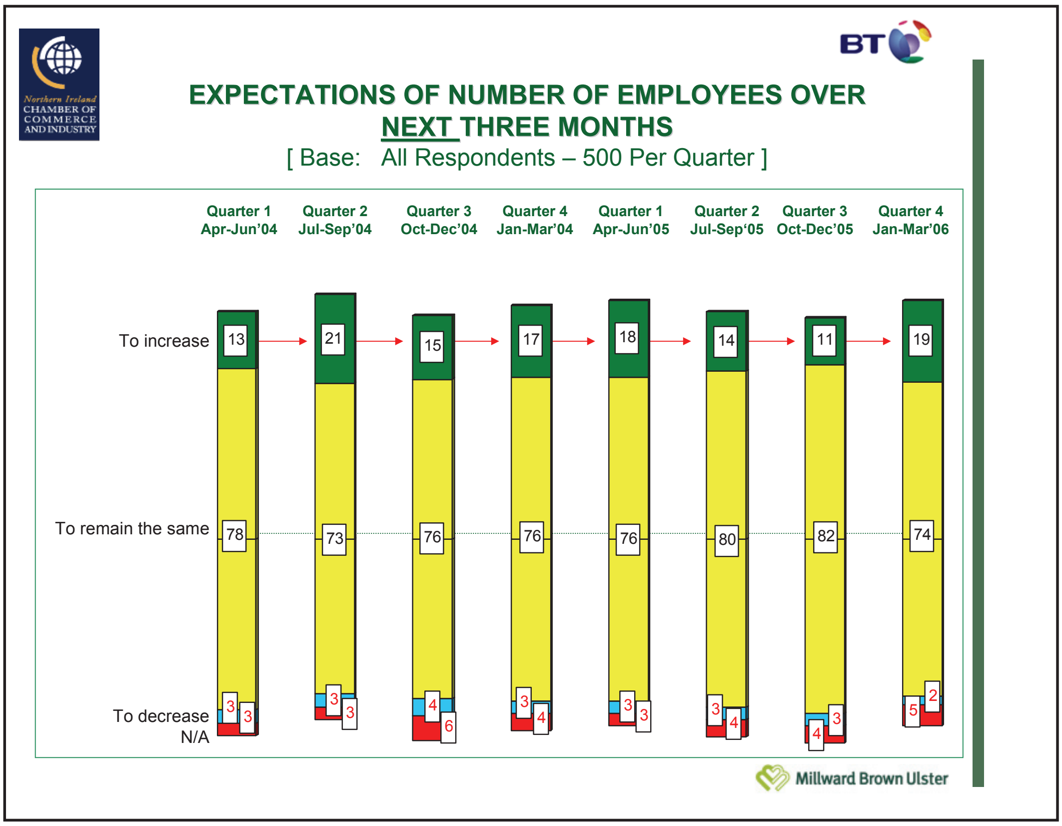
	Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service – Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other Services
n =	35* %	65 %	50 %	45* %	45* %	170 %	90 %
To increase	30	52	47	40	51	49	36
To remain the same	57	34	46	44	37	42	42
To decrease	13	11	5	6	11	7	9
Doesn't apply	0	4	2	10	2	2	13

Millward Brown Ulster


NUMBER OF EMPLOYEES OVER PAST THREE MONTHS
[Base: All Respondents – 500 Per Quarter]
Quarter 1 Apr-Jun'04
Quarter 2 Jul-Sep'04
Quarter 3 Oct-Dec'04
Quarter 4 Jan-Mar'04
Quarter 1 Apr-Jun'05
Quarter 2 Jul-Sep'05
Quarter 3 Oct-Dec'05
Quarter 4 Jan-Mar'06
Increased
15 17 16 13 11 15 11 11
Remained the same
72 71 71 74 79 73 76 74
Decreased
8 7 8 8 7 10 9 9
N/A
4 4 5 5 3 2 4 5
Millward Brown Ulster

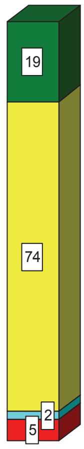

NUMBER OF EMPLOYEES OVER PAST THREE MONTHS
Remained the same
Increased
Decreased
100
90
80
70
60
50
40
30
20
10
0
72 71 71 74 79 73 76 74
15 17 16 13 11 15 11 11
8 7 8 8 7 10 9 9
Qtr 1 Apr-Jun 2004
Qtr 2 Jul-Sep 2004
Q3 Oct-Dec 2004
Q4 Jan-Mar 2005
Q1 Apr-Jun '05
Q2 Jul-Sep '05
Q3 Oct-Dec '05
Q4 Jan-Mar'06
Millward Brown Ulster


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
NUMBER OF EMPLOYEES OVER PAST THREE MONTHS BY SECTOR
[Base: All Respondents - 500]
SECTOR
*Small bases
Quarter 4 Jan-Mar'06 %
Agriculture, forestry and fishing
Manufacturing of food, drinks, textiles, clothing and electronics
Construction and tradesmen
Service – Professional
Service - Leisure, hotels and catering
Service, Retail / distribution
Other Services
n = 35* % 65 % 50 % 45* % 45* % 170 % 90 %
Increased 11 3 16 14 24 12 9 8
Remained the same 74 73 63 72 68 75 77 82
Decreased 9 7 20 9 4 11 9 6
N/A 5 17 2 5 4 2 5 5
Millward Brown Ulster


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
EXPECTATIONS OF NUMBER OF EMPLOYEES OVER NEXT THREE MONTHS
[Base: All Respondents – 500 Per Quarter]
Quarter 1 Apr-Jun'04
Quarter 2 Jul-Sep'04
Quarter 3 Oct-Dec'04
Quarter 4 Jan-Mar'04
Quarter 1 Apr-Jun'05
Quarter 2 Jul-Sep'05
Quarter 3 Oct-Dec'05
Quarter 4 Jan-Mar'06
To increase 13 21 15 17 18 14 11 19
To remain the same 78 73 76 76 76 80 82 74
To decrease 3 3 4 3 3 3 4 5
N/A 3 3 6 4 3 4 3 2
Millward Brown Ulster

EXPECTATIONS OF BUSINESS EMPLOYEES OVER NEXT THREE MONTHS BY SECTOR

[Base: All Respondents - 500]



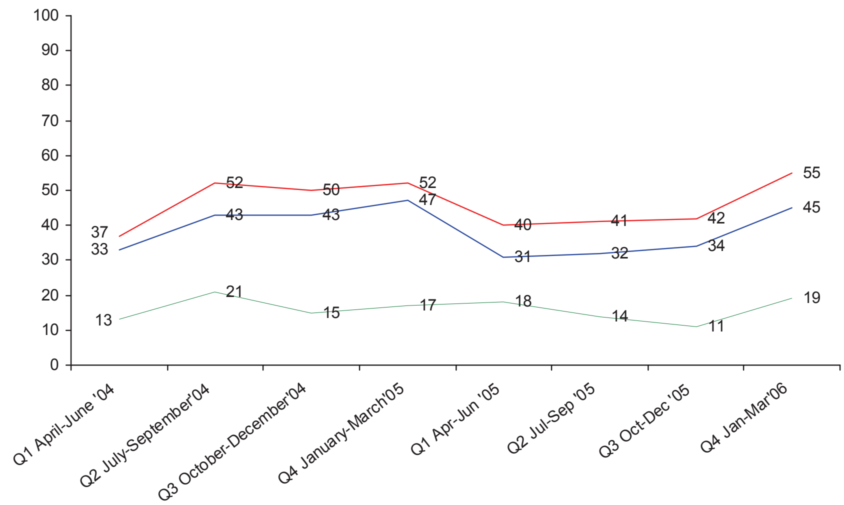
SECTOR

*Small bases

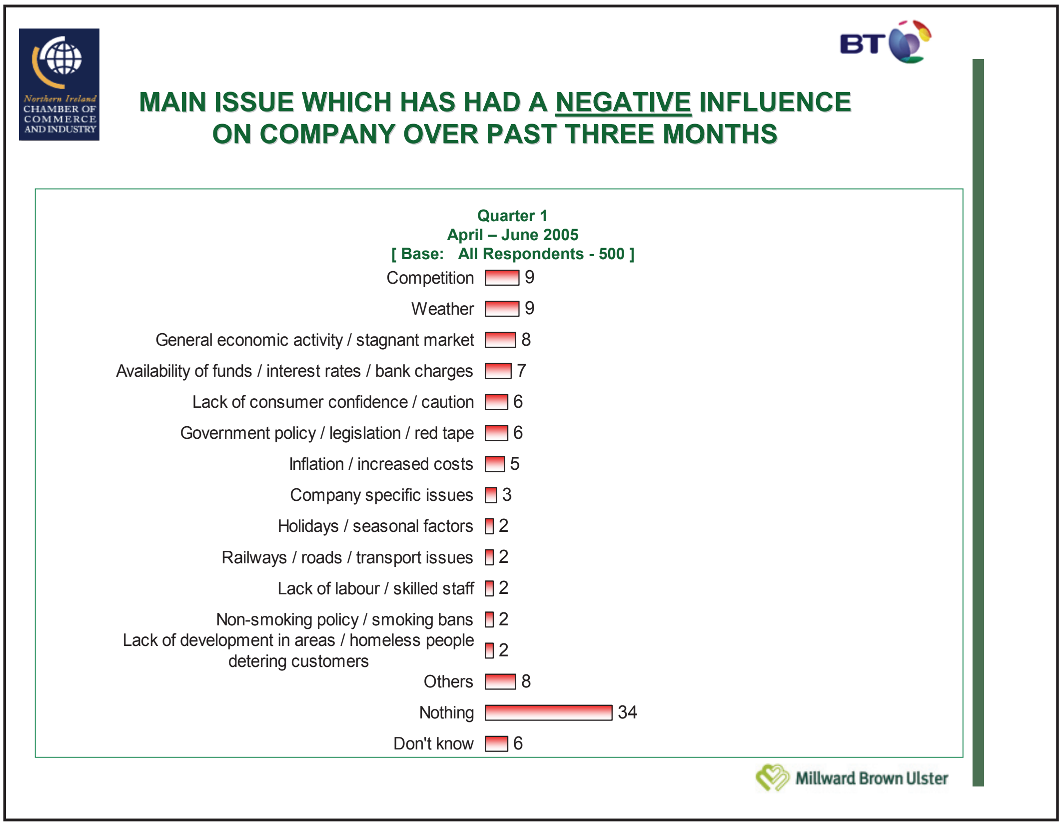
	Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service – Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other Services
n =	35* %	65 %	50 %	45* %	45* %	170 %	90 %
To increase	7	25	23	20	25	18	14
To remain the same	80	71	63	76	70	77	78
To decrease	0	2	7	0	4	1	3
Doesn't apply	13	2	7	4	2	4	5

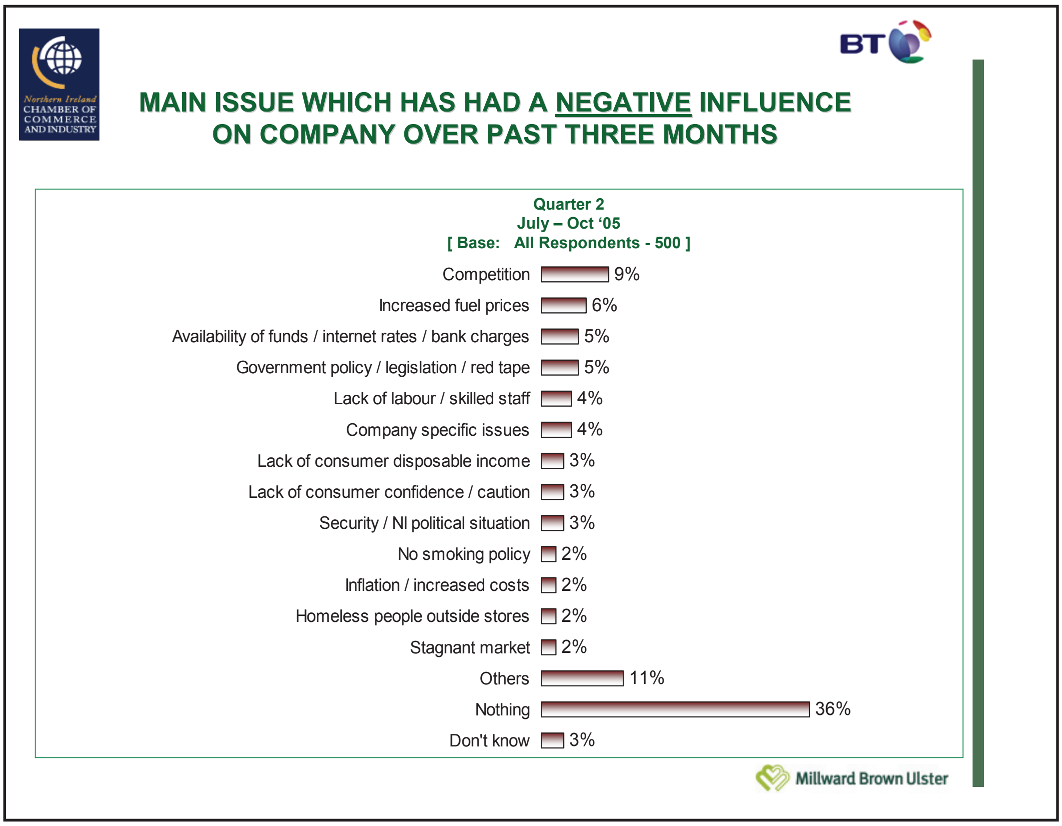
Millward Brown Ulster

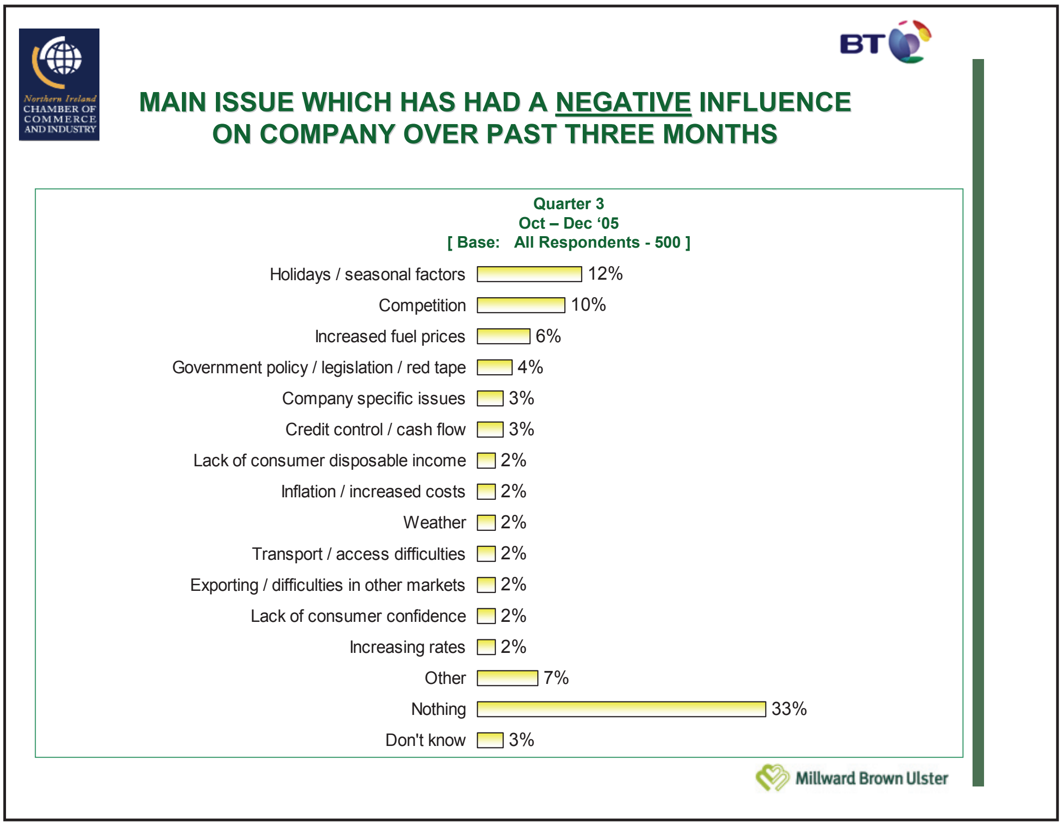
EXPECT INCREASE OVER NEXT THREE MONTHS

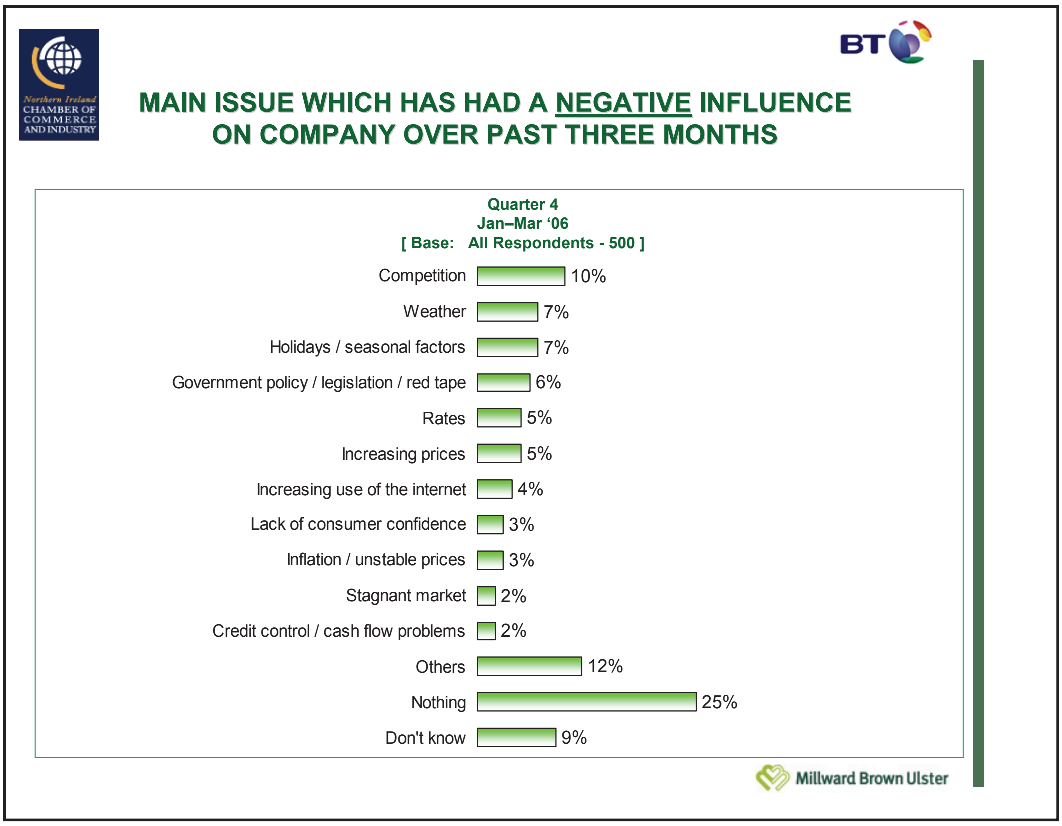


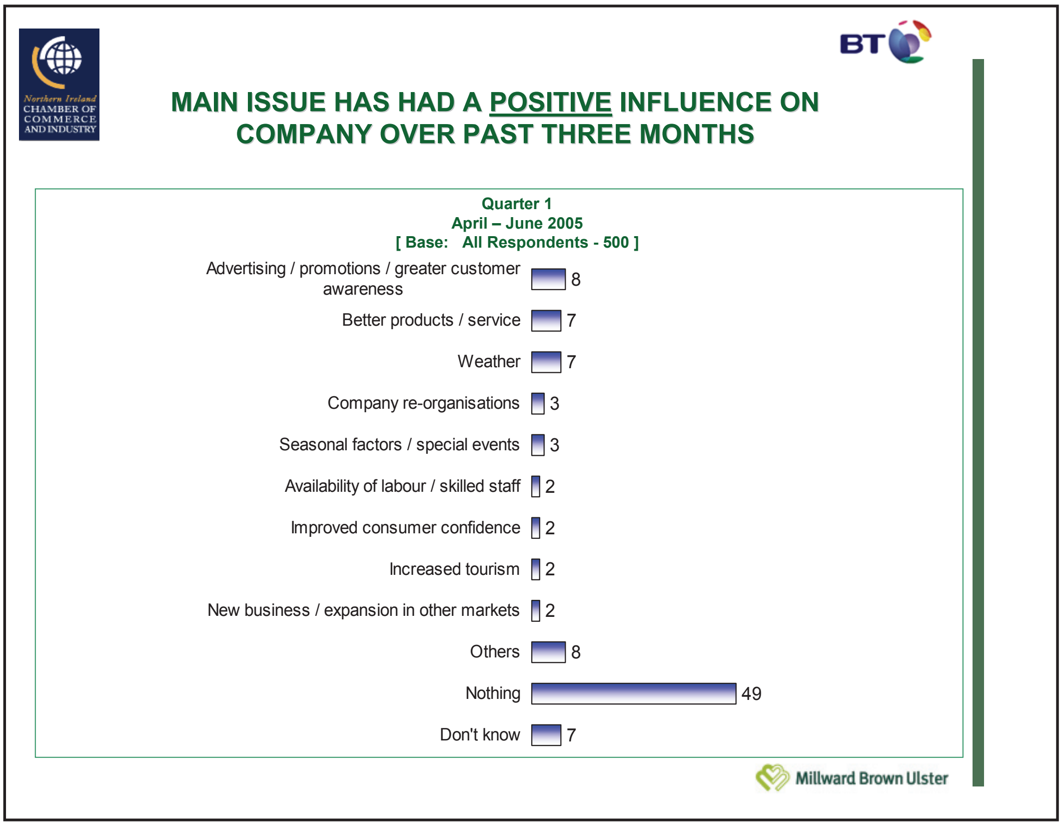
Millward Brown Ulster


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
MAIN ISSUE WHICH HAS HAD A NEGATIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 1
April – June 2005
[Base: All Respondents - 500]
Competition 9
Weather 9
General economic activity / stagnant market 8
Availability of funds / interest rates / bank charges 7
Lack of consumer confidence / caution 6
Government policy / legislation / red tape 6
Inflation / increased costs 5
Company specific issues 3
Holidays / seasonal factors 2
Railways / roads / transport issues 2
Lack of labour / skilled staff 2
Non-smoking policy / smoking bans 2
Lack of development in areas / homeless people detering customers 2
Others 8
Nothing 34
Don't know 6
Millward Brown Ulster

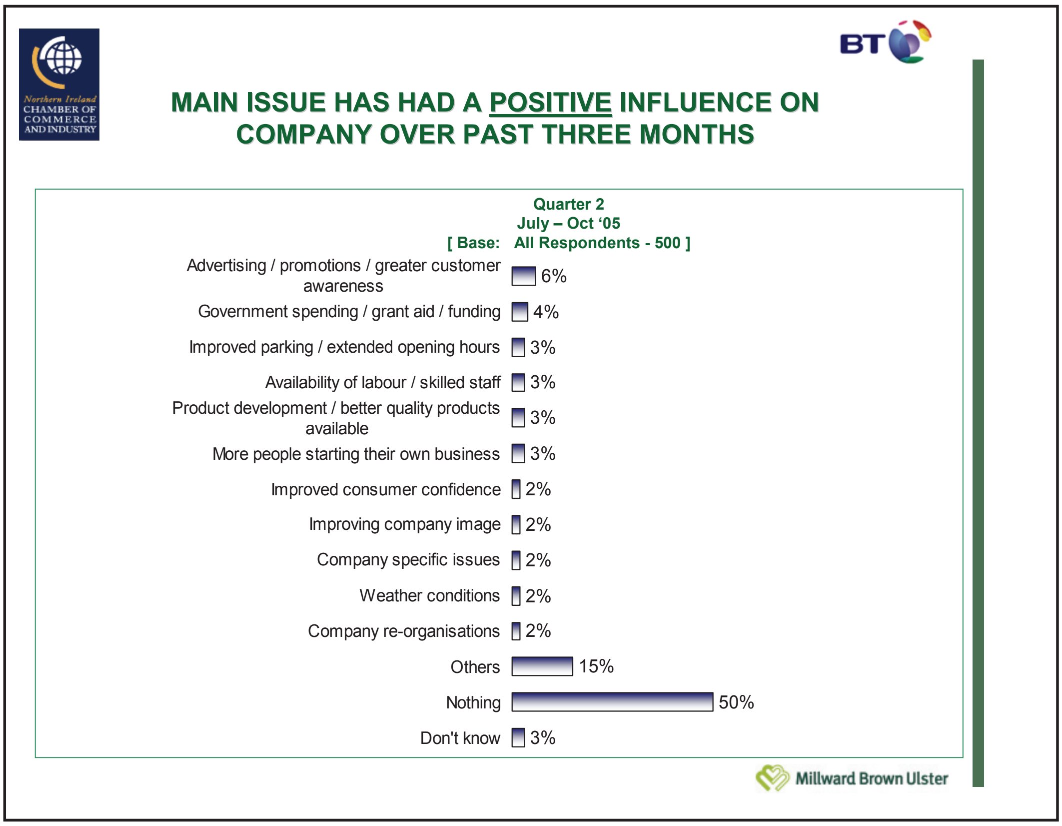

Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
MAIN ISSUE WHICH HAS HAD A NEGATIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 2
July – Oct '05
[Base: All Respondents - 500]
Competition 9%
Increased fuel prices 6%
Availability of funds / internet rates / bank charges 5%
Government policy / legislation / red tape 5%
Lack of labour / skilled staff 4%
Company specific issues 4%
Lack of consumer disposable income 3%
Lack of consumer confidence / caution 3%
Security / NI political situation 3%
No smoking policy 2%
Inflation / increased costs 2%
Homeless people outside stores 2%
Stagnant market 2%
Others 11%
Nothing 36%
Don't know 3%
Millward Brown Ulster


MAIN ISSUE WHICH HAS HAD A NEGATIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 3
Oct – Dec '05
[Base: All Respondents - 500]
Holidays / seasonal factors 12%
Competition 10%
Increased fuel prices 6%
Government policy / legislation / red tape 4%
Company specific issues 3%
Credit control / cash flow 3%
Lack of consumer disposable income 2%
Inflation / increased costs 2%
Weather 2%
Transport / access difficulties 2%
Exporting / difficulties in other markets 2%
Lack of consumer confidence 2%
Increasing rates 2%
Other 7%
Nothing 33%
Don't know 3%
Northern Ireland Chamber of Commerce and Industry
BT
Millward Brown Ulster

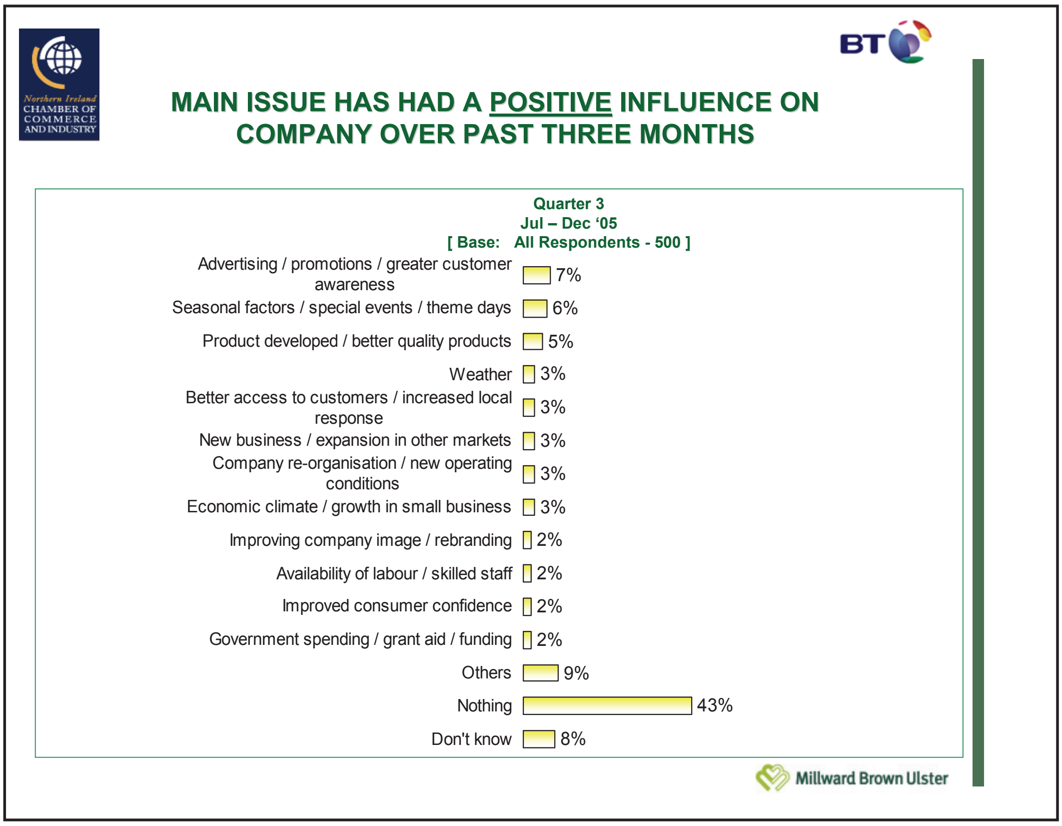

MAIN ISSUE WHICH HAS HAD A NEGATIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 4
Jan–Mar '06
[Base: All Respondents - 500]
Competition 10%
Weather 7%
Holidays / seasonal factors 7%
Government policy / legislation / red tape 6%
Rates 5%
Increasing prices 5%
Increasing use of the internet 4%
Lack of consumer confidence 3%
Inflation / unstable prices 3%
Stagnant market 2%
Credit control / cash flow problems 2%
Others 12%
Nothing 25%
Don't know 9%
Northern Ireland Chamber of Commerce and Industry
BT
Millward Brown Ulster

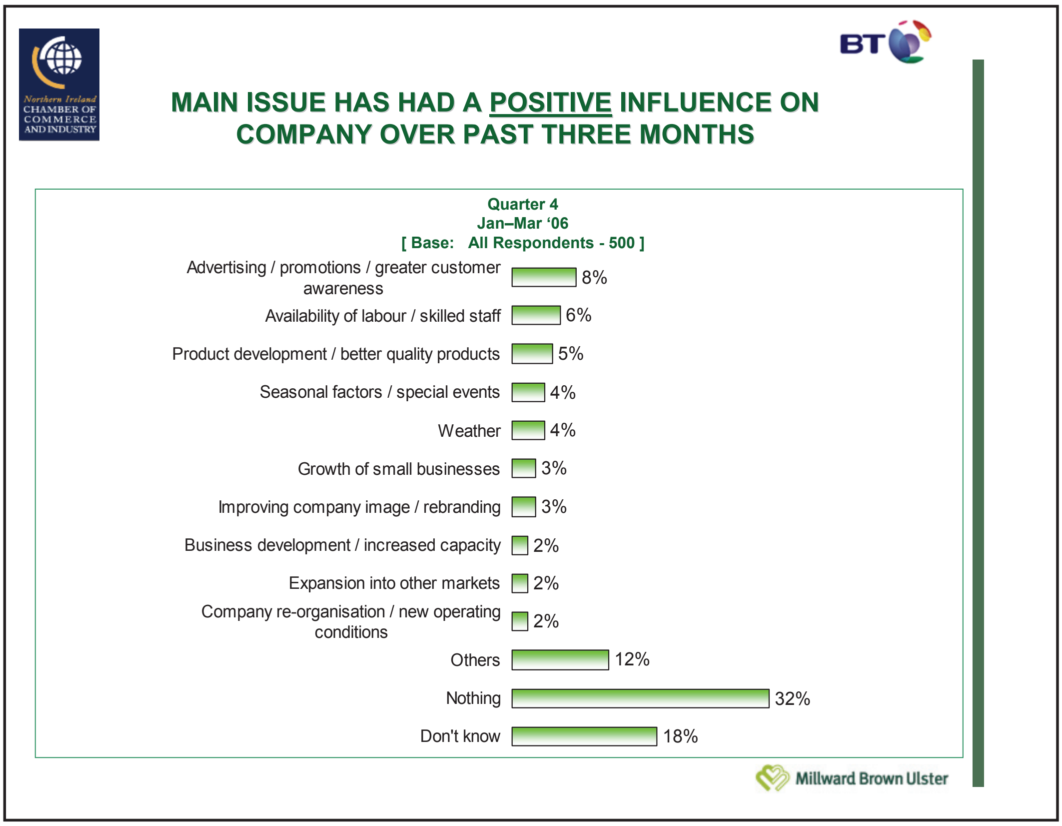


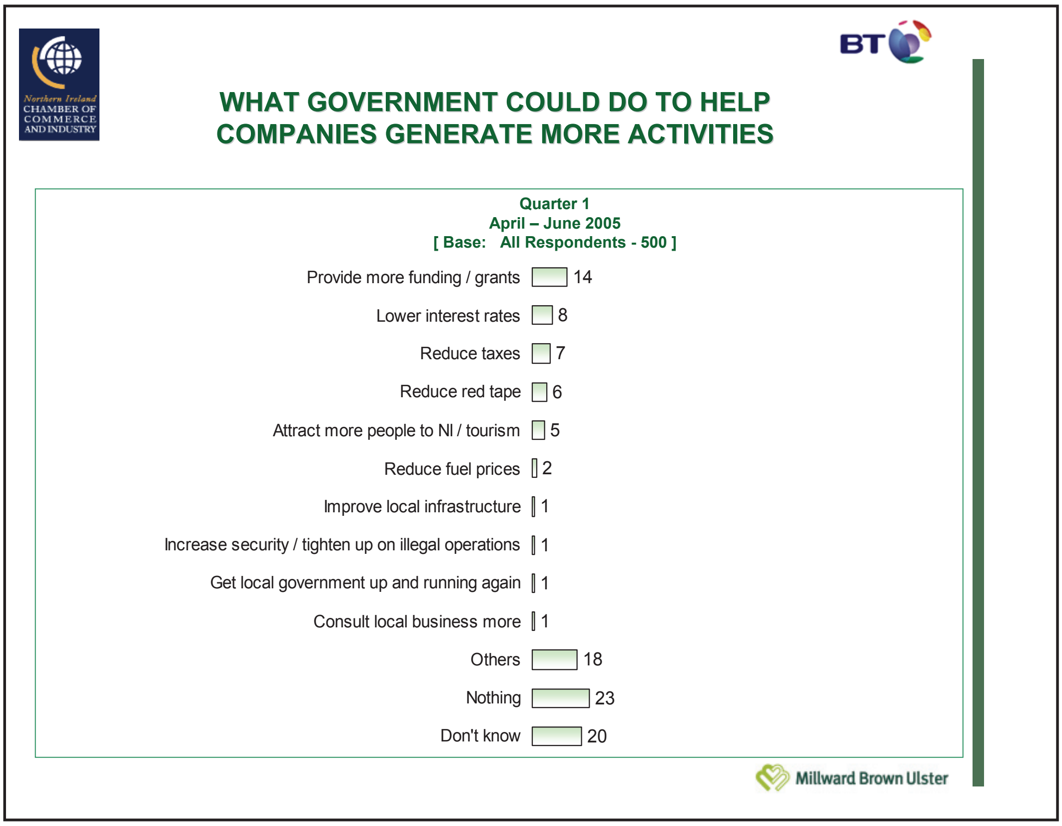
Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
MAIN ISSUE HAS HAD A POSITIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 1
April – June 2005
[Base: All Respondents - 500]
Advertising / promotions / greater customer awareness 8
Better products / service 7
Weather 7
Company re-organisations 3
Seasonal factors / special events 3
Availability of labour / skilled staff 2
Improved consumer confidence 2
Increased tourism 2
New business / expansion in other markets 2
Others 8
Nothing 49
Don't know 7
Millward Brown Ulster



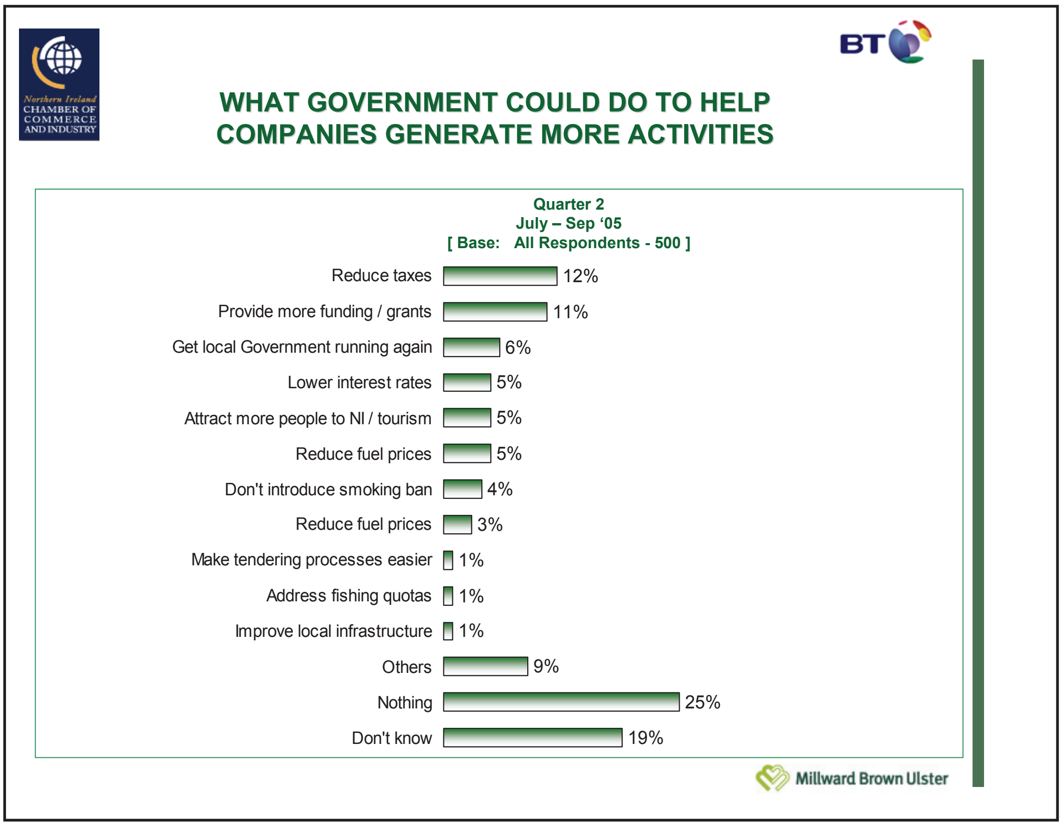
Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
MAIN ISSUE HAS HAD A POSITIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 2
July – Oct '05
[Base: All Respondents - 500]
Advertising / promotions / greater customer awareness 6%
Government spending / grant aid / funding 4%
Improved parking / extended opening hours 3%
Availability of labour / skilled staff 3%
Product development / better quality products available 3%
More people starting their own business 3%
Improved consumer confidence 2%
Improving company image 2%
Company specific issues 2%
Weather conditions 2%
Company re-organisations 2%
Others 15%
Nothing 50%
Don't know 3%
Millward Brown Ulster


MAIN ISSUE HAS HAD A POSITIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 3
Jul – Dec '05
[Base: All Respondents - 500]
Advertising / promotions / greater customer awareness 7%
Seasonal factors / special events / theme days 6%
Product developed / better quality products 5%
Weather 3%
Better access to customers / increased local response 3%
New business / expansion in other markets 3%
Company re-organisation / new operating conditions 3%
Economic climate / growth in small business 3%
Improving company image / rebranding 2%
Availability of labour / skilled staff 2%
Improved consumer confidence 2%
Government spending / grant aid / funding 2%
Others 9%
Nothing 43%
Don't know 8%
Millward Brown Ulster

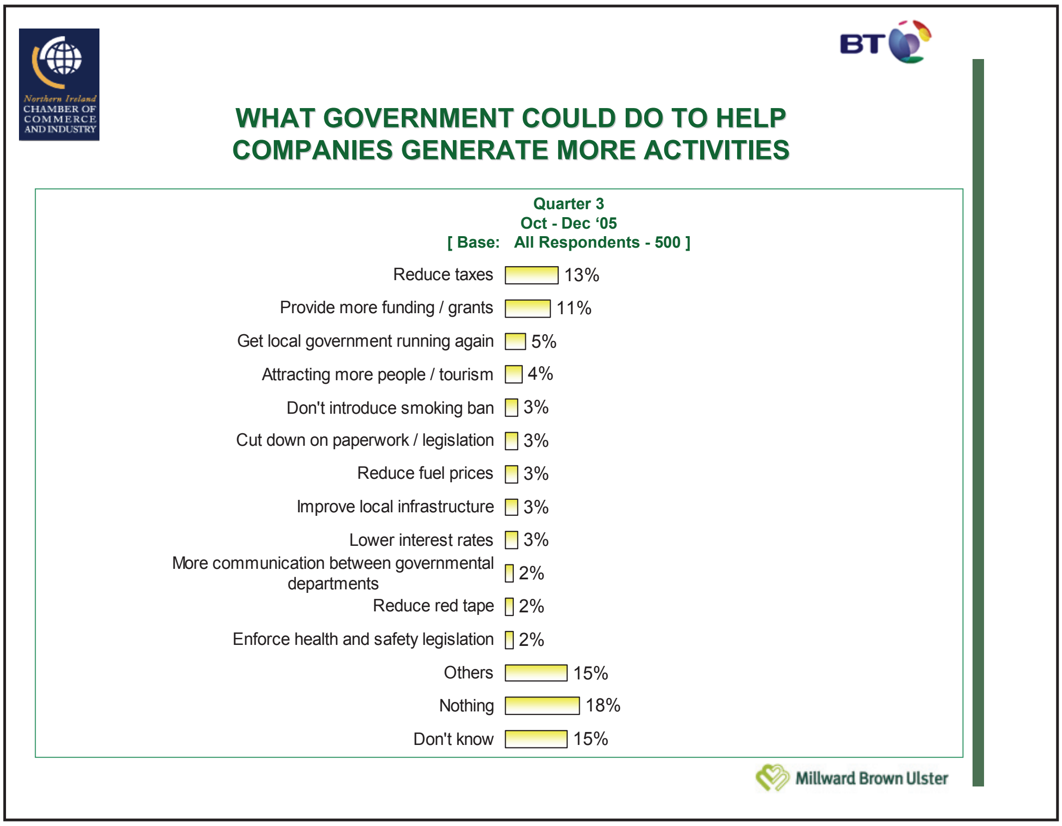

MAIN ISSUE HAS HAD A POSITIVE INFLUENCE ON COMPANY OVER PAST THREE MONTHS
Quarter 4
Jan–Mar '06
[Base: All Respondents - 500]
Advertising / promotions / greater customer awareness 8%
Availability of labour / skilled staff 6%
Product development / better quality products 5%
Seasonal factors / special events 4%
Weather 4%
Growth of small businesses 3%
Improving company image / rebranding 3%
Business development / increased capacity 2%
Expansion into other markets 2%
Company re-organisation / new operating conditions 2%
Others 12%
Nothing 32%
Don't know 18%
Millward Brown Ulster

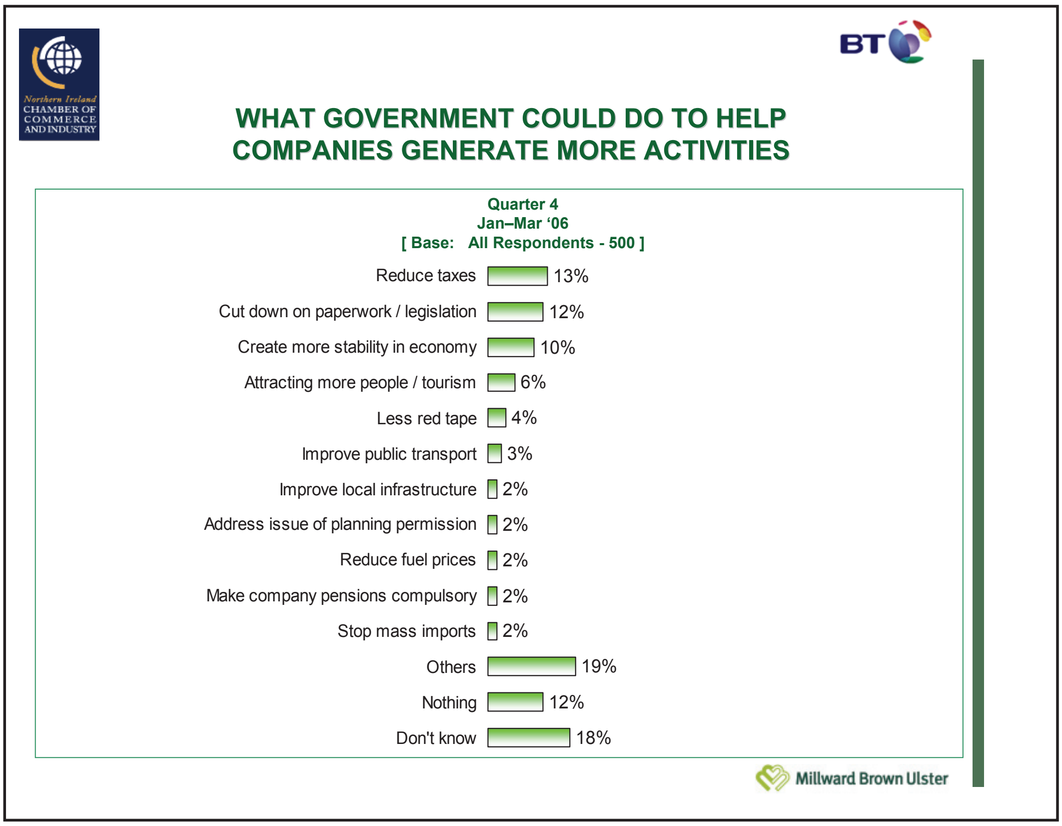


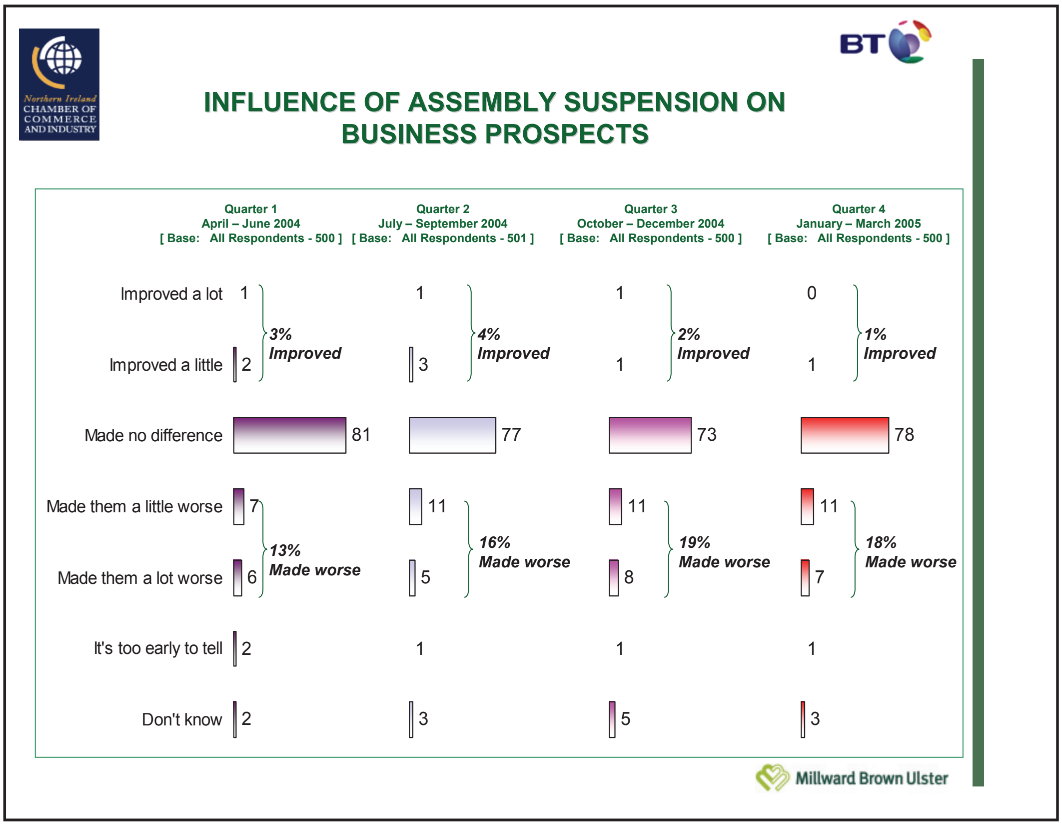
Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
WHAT GOVERNMENT COULD DO TO HELP COMPANIES GENERATE MORE ACTIVITIES
Quarter 1
April – June 2005
[Base: All Respondents - 500]
Provide more funding / grants 14
Lower interest rates 8
Reduce taxes 7
Reduce red tape 6
Attract more people to NI / tourism 5
Reduce fuel prices 2
Improve local infrastructure 1
Increase security / tighten up on illegal operations 1
Get local government up and running again 1
Consult local business more 1
Others 18
Nothing 23
Don't know 20
Millward Brown Ulster

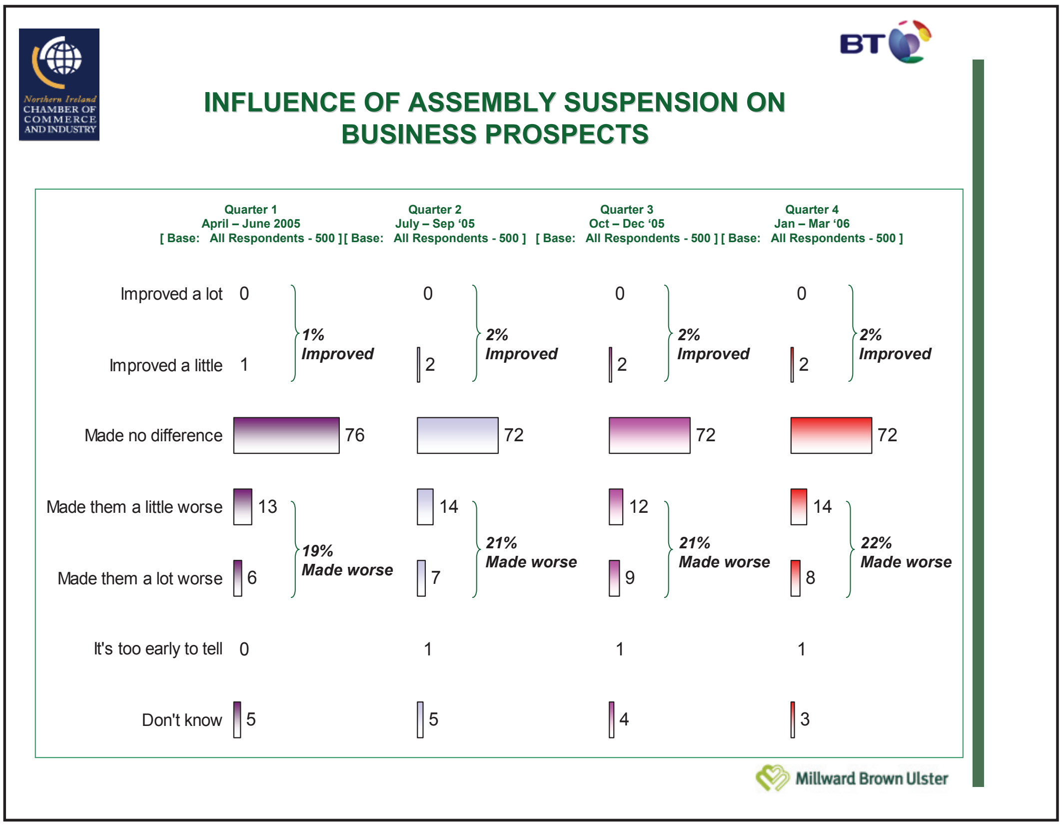


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
WHAT GOVERNMENT COULD DO TO HELP COMPANIES GENERATE MORE ACTIVITIES
Quarter 2
July – Sep '05
[Base: All Respondents - 500]
Reduce taxes 12%
Provide more funding / grants 11%
Get local Government running again 6%
Lower interest rates 5%
Attract more people to NI / tourism 5%
Reduce fuel prices 5%
Don't introduce smoking ban 4%
Reduce fuel prices 3%
Make tendering processes easier 1%
Address fishing quotas 1%
Improve local infrastructure 1%
Others 9%
Nothing 25%
Don't know 19%
Millward Brown Ulster


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
WHAT GOVERNMENT COULD DO TO HELP COMPANIES GENERATE MORE ACTIVITIES
Quarter 3
Oct - Dec '05
[Base: All Respondents - 500]
Reduce taxes 13%
Provide more funding / grants 11%
Get local government running again 5%
Attracting more people / tourism 4%
Don't introduce smoking ban 3%
Cut down on paperwork / legislation 3%
Reduce fuel prices 3%
Improve local infrastructure 3%
Lower interest rates 3%
More communication between governmental departments 2%
Reduce red tape 2%
Enforce health and safety legislation 2%
Others 15%
Nothing 18%
Don't know 15%
Millward Brown Ulster


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
WHAT GOVERNMENT COULD DO TO HELP COMPANIES GENERATE MORE ACTIVITIES
Quarter 4
Jan–Mar '06
[Base: All Respondents - 500]
Reduce taxes 13%
Cut down on paperwork / legislation 12%
Create more stability in economy 10%
Attracting more people / tourism 6%
Less red tape 4%
Improve public transport 3%
Improve local infrastructure 2%
Address issue of planning permission 2%
Reduce fuel prices 2%
Make company pensions compulsory 2%
Stop mass imports 2%
Others 19%
Nothing 12%
Don't know 18%
Millward Brown Ulster


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
INFLUENCE OF ASSEMBLY SUSPENSION ON BUSINESS PROSPECTS
Quarter 1 April – June 2004 [Base: All Respondents - 500]
Quarter 2 July – September 2004 [Base: All Respondents - 501]
Quarter 3 October – December 2004 [Base: All Respondents - 500]
Quarter 4 January – March 2005 [Base: All Respondents - 500]
Improved a lot 1 1 1 0
Improved a little 2 3 1 1
3% Improved
4% Improved
2% Improved
1% Improved
Made no difference 81 77 73 78
Made them a little worse 7 11 11 11
Made them a lot worse 6 5 8 7
13% Made worse
16% Made worse
19% Made worse
18% Made worse
It's too early to tell 2 1 1 1
Don't know 2 3 5 3
Millward Brown Ulster


Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
BT
INFLUENCE OF ASSEMBLY SUSPENSION ON BUSINESS PROSPECTS
Quarter 1 April – June 2005 [Base: All Respondents - 500]
Quarter 2 July – Sep '05 [Base: All Respondents - 500]
Quarter 3 Oct – Dec '05 [Base: All Respondents - 500]
Quarter 4 Jan – Mar '06 [Base: All Respondents - 500]
Improved a lot 0 0 0 0
Improved a little 1 2 2 2
1% Improved
2% Improved
2% Improved
2% Improved
Made no difference 76 72 72 72
Made them a little worse 13 14 12 14
Made them a lot worse 6 7 9 8
19% Made worse
21% Made worse
21% Made worse
22% Made worse
It's too early to tell 0 1 1 1
Don't know 5 5 4 3
Millward Brown Ulster

INFLUENCE OF ASSEMBLY SUSPENSION ON BUSINESS PROSPECTS

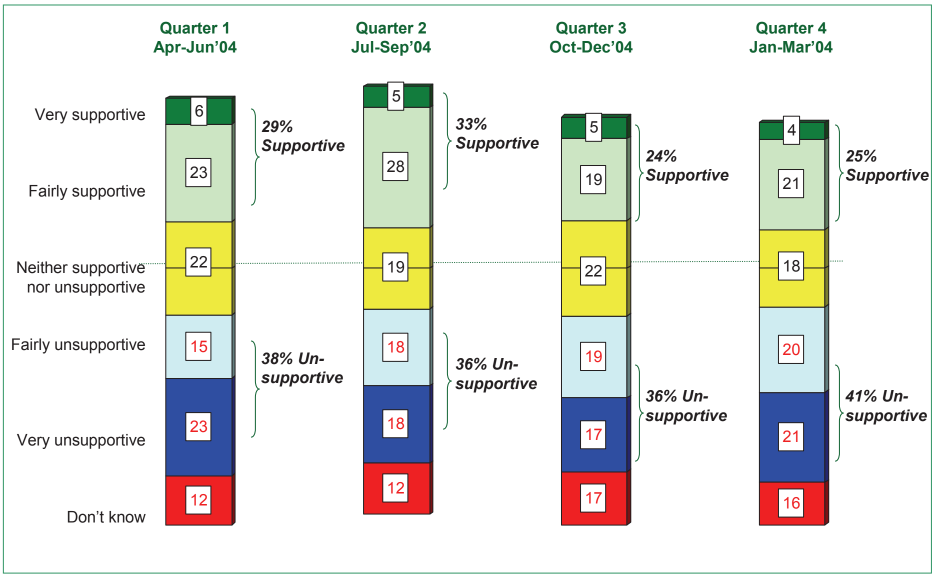
[Base: All Moving Annual Totals – April '05 – April '06 - 2000]

	Total		Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service - Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other services
n =			140 %	260 %	200 %	180 %	180 %	680 %	360 %
Improved a lot	0	1% Improved	0	0	0	1	0	0	0
Improved a little	1		1	1	2	1	1	1	2
Made no difference	73		63	73	73	75	72	76	70
Made them a little worse	13	21% Made Worse	20	14	9	12	13	12	14
Made them a lot worse	8		11	5	13	9	8	5	9
It's too early to tell	1		1	1	1	1	1	0	1
Don't know	4		4	6	2	3	4	5	4

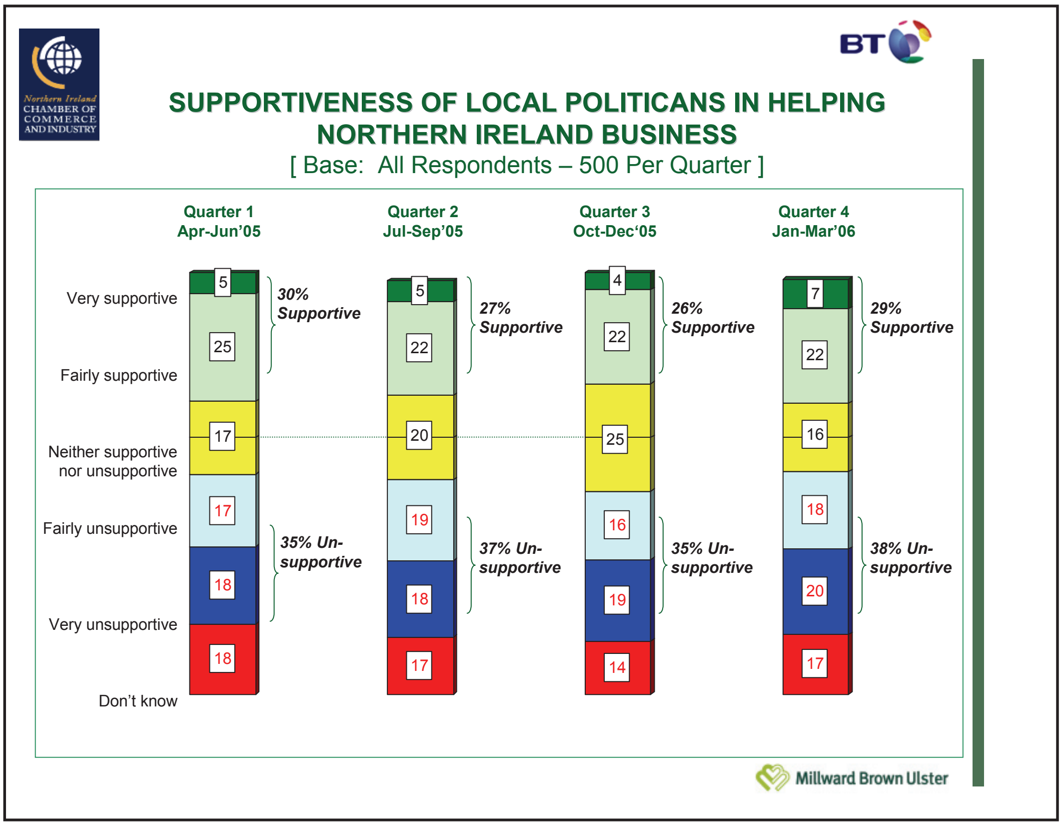
Millward Brown Ulster

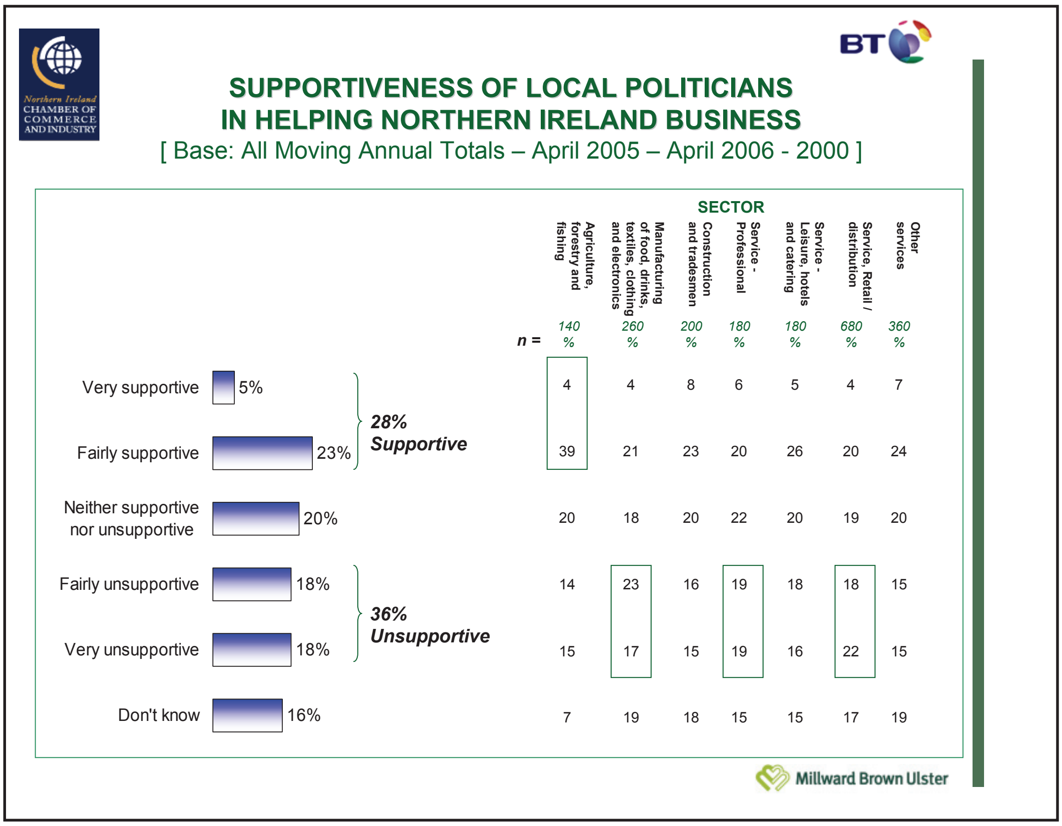
SUPPORTIVENESS OF LOCAL POLITICANS IN HELPING NORTHERN IRELAND BUSINESS

[Base: All Respondents – 500 Per Quarter]



Millward Brown Ulster


SUPPORTIVENESS OF LOCAL POLITICANS IN HELPING NORTHERN IRELAND BUSINESS
[Base: All Respondents – 500 Per Quarter]
Quarter 1 Apr-Jun'05
Quarter 2 Jul-Sep'05
Quarter 3 Oct-Dec'05
Quarter 4 Jan-Mar'06
Very supportive
Fairly supportive
Neither supportive nor unsupportive
Fairly unsupportive
Very unsupportive
Don't know
5
25
17
17
18
18
30% Supportive
35% Un-supportive
5
22
20
19
18
17
27% Supportive
37% Un-supportive
4
22
25
16
19
14
26% Supportive
35% Un-supportive
7
22
16
18
20
17
29% Supportive
38% Un-supportive
Millward Brown Ulster


SUPPORTIVENESS OF LOCAL POLITICIANS IN HELPING NORTHERN IRELAND BUSINESS
[Base: All Moving Annual Totals – April 2005 – April 2006 - 2000]
SECTOR
Agriculture, forestry and fishing
Manufacturing of food, drinks, textiles, clothing and electronics
Construction and tradesmen
Service - Professional
Service - Leisure, hotels and catering
Service, Retail / distribution
Other services
n = 140 % 260 % 200 % 180 % 180 % 680 % 360 %
Very supportive 5% 4 4 8 6 5 4 7
Fairly supportive 23% 39 21 23 20 26 20 24
28% Supportive
Neither supportive nor unsupportive 20% 20 18 20 22 20 19 20
Fairly unsupportive 18% 14 23 16 19 18 18 15
Very unsupportive 18% 15 17 15 19 16 22 15
36% Unsupportive
Don't know 16% 7 19 18 15 15 17 19
Millward Brown Ulster

DO YOU THINK THE UK SHOULD JOIN THE EURO?

[Base: All Moving Annual Totals – April 2005 – April 2006 - 2000]

	TOTAL	Size of company: 1-10 Employees	11-24 Employees	25+ Employees	Sector: Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service - Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other services
n =		1666	218	116	140	260	200	180	180	680	360
	%	%	%	%	%	%	%	%	%	%	%
Yes, now	26%	25	27	32	17	30	23	29	23	27	27
Yes, when conditions are right	21%	21	23	17	20	23	25	24	22	19	21
No, never	41%	41	39	39	50	35	38	36	42	42	40
Don't know	12%	12	11	12	13	12	14	11	12	12	12

47%

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PREFERRED SPEAKERS AT BUSINESS EVENTS

[Base: All Moving Annual Totals – April 2005 – April 2006 - 2000]

	TOTAL	SECTOR: Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service – Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other Services
n =		140	260	200	180	180	680	360
		%	%	%	%	%	%	%
Local business personalities	43%	38	44	48	41	36	47	38
Motivational speakers	27%	16	22	21	33	31	28	31
Government representatives	19%	25	17	18	20	17	17	20
Sports personalities	9%	5	10	10	7	13	8	8
Media personalities	7%	5	7	2	8	8	7	11
Don't know	16%	22	15	16	14	14	14	18

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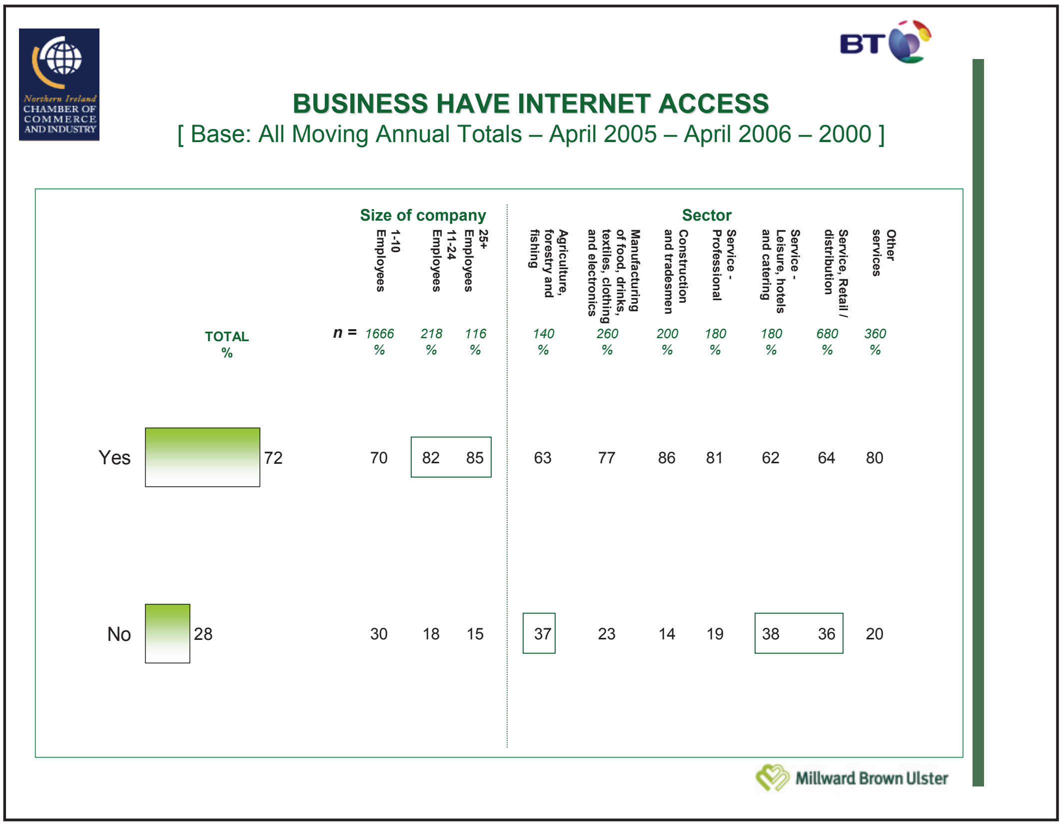
BUSINESS HAVE INTERNET ACCESS
[Base: All Moving Annual Totals – April 2005 – April 2006 – 2000]
Size of company
Sector
1-10 Employees
11-24 Employees
25+ Employees
Agriculture, forestry and fishing
Manufacturing of food, drinks, textiles, clothing and electronics
Construction and tradesmen
Service - Professional
Service - Leisure, hotels and catering
Service, Retail / distribution
Other services
TOTAL %
n = 1666 % 218 % 116 % 140 % 260 % 200 % 180 % 180 % 680 % 360 %
Yes 72 70 82 85 63 77 86 81 62 64 80
No 28 30 18 15 37 23 14 19 38 36 20
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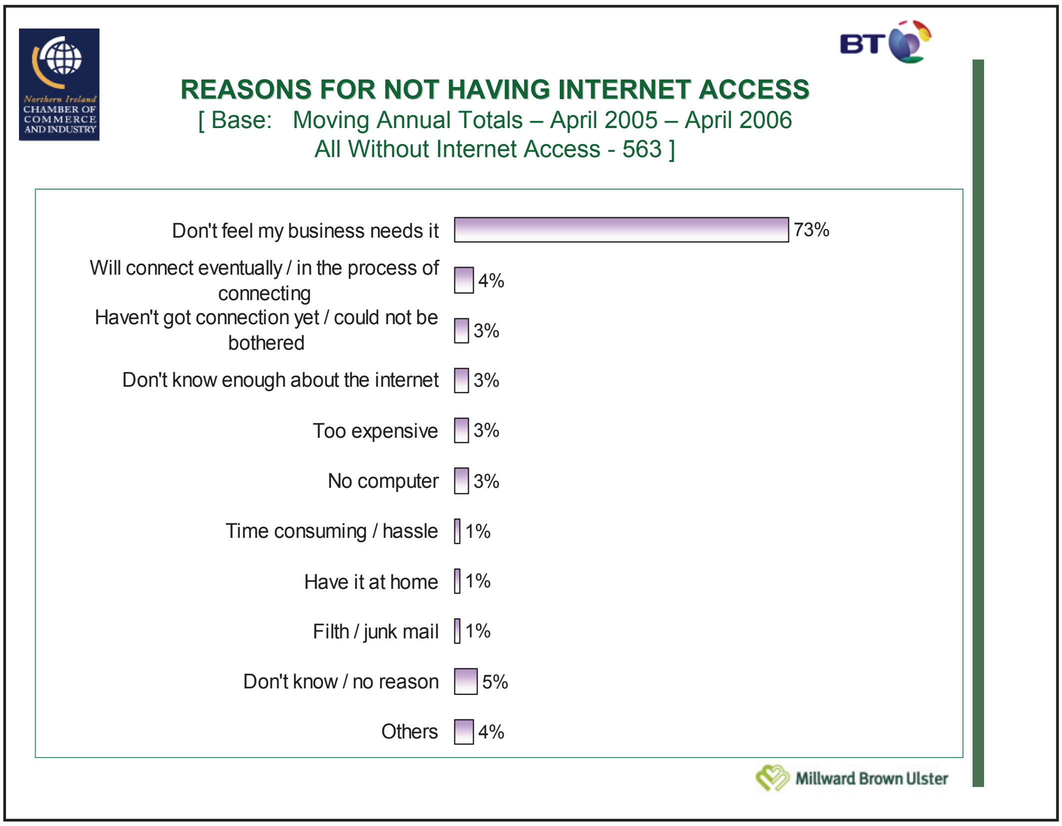
REASONS FOR NOT HAVING INTERNET ACCESS
[Base: Moving Annual Totals – April 2005 – April 2006
All Without Internet Access - 563]
Don't feel my business needs it 73%
Will connect eventually / in the process of connecting 4%
Haven't got connection yet / could not be bothered 3%
Don't know enough about the internet 3%
Too expensive 3%
No computer 3%
Time consuming / hassle 1%
Have it at home 1%
Filth / junk mail 1%
Don't know / no reason 5%
Others 4%
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TYPE OF INTERNET ACCESS USED

[Base: Moving Annual Totals – April 2005 – April 2006
All With Internet Access - 1437]

	Total	Size of company: 1-10 Employees	11-24 Employees	25+ Employees	Sector: Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service - Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other services
n =		1159	178	99	88	201	172	145	111	432	287
		%	%	%	%	%	%	%	%	%	%
Broadband Internet	71%	71	69	76	54	68	73	82	70	69	76
Dial-up Internet	20%	22	14	10	35	25	22	10	21	19	17
ISDN	4%	2	11	9	0	4	2	4	3	5	5
Business Highway	1%	1	2	2	0	1	1	1	1	2	0
Don't know	6%	6	7	7	11	3	5	6	7	8	3

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MAIN BENEFITS OF BROADBAND TO YOUR BUSINESS

[Base: Moving Annual Totals – April 2005 – April 2006
All With Broadband Internet Access - 1020]

*Small bases

	Total	Sector: Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service - Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other services
n =		47*	138	125	119	78	296	217
		%	%	%	%	%	%	%
Speed of internet access	68%	64	67	69	81	59	64	70
Always on-line (no dial up)	15%	10	10	12	14	17	16	10
More control	12%	15	13	13	10	10	11	13
Use phone and internet at same time	9%	21	10	6	4	11	5	14
Standard monthly charge (not paying for continual access)	5%	6	5	6	2	2	5	7
Others	18%	2	16	21	12	27	19	18
Can't think of any	8%	15	11	9	5	8	6	8

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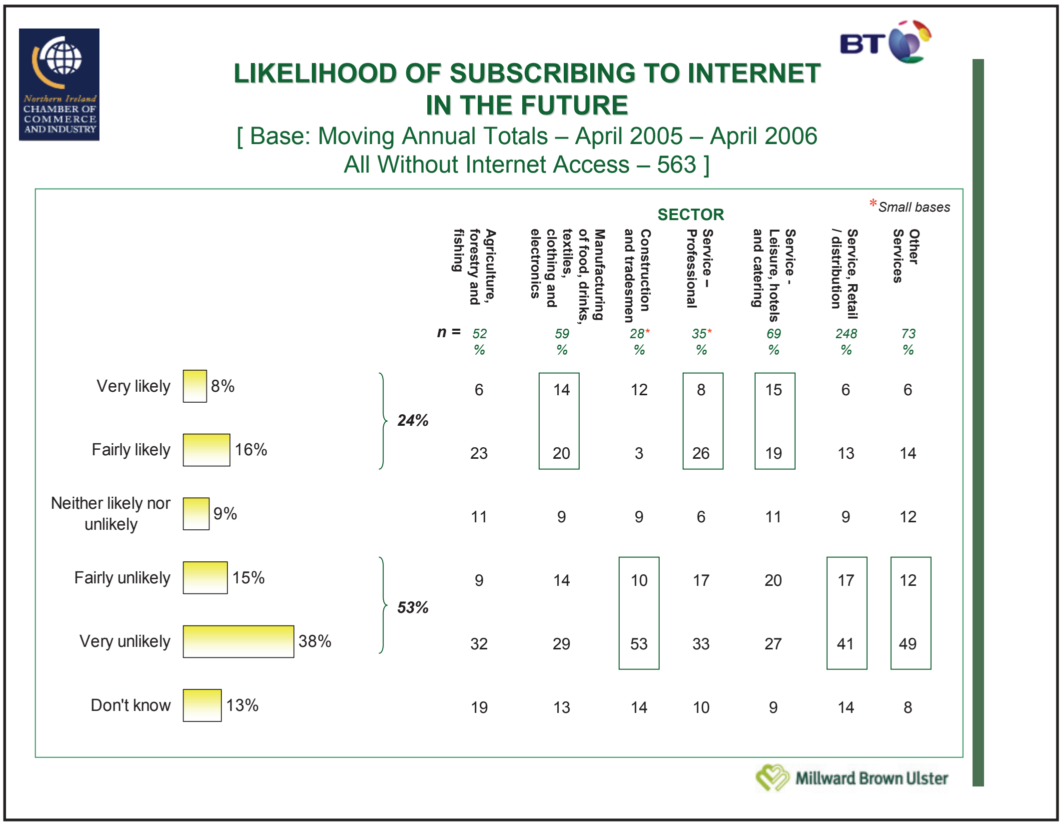
LIKELIHOOD OF SUBSCRIBING TO INTERNET IN THE FUTURE
[Base: Moving Annual Totals – April 2005 – April 2006
All Without Internet Access – 563]
*Small bases
SECTOR
Agriculture, forestry and fishing
Manufacturing of food, drinks, textiles, clothing and electronics
Construction and tradesmen
Service – Professional
Service - Leisure, hotels and catering
Service, Retail / distribution
Other Services
n = 52 % | 59 % | 28* % | 35* % | 69 % | 248 % | 73 %
Very likely 8% | 6 | 14 | 12 | 8 | 15 | 6 | 6
24%
Fairly likely 16% | 23 | 20 | 3 | 26 | 19 | 13 | 14
Neither likely nor unlikely 9% | 11 | 9 | 9 | 6 | 11 | 9 | 12
Fairly unlikely 15% | 9 | 14 | 10 | 17 | 20 | 17 | 12
53%
Very unlikely 38% | 32 | 29 | 53 | 33 | 27 | 41 | 49
Don't know 13% | 19 | 13 | 14 | 10 | 9 | 14 | 8
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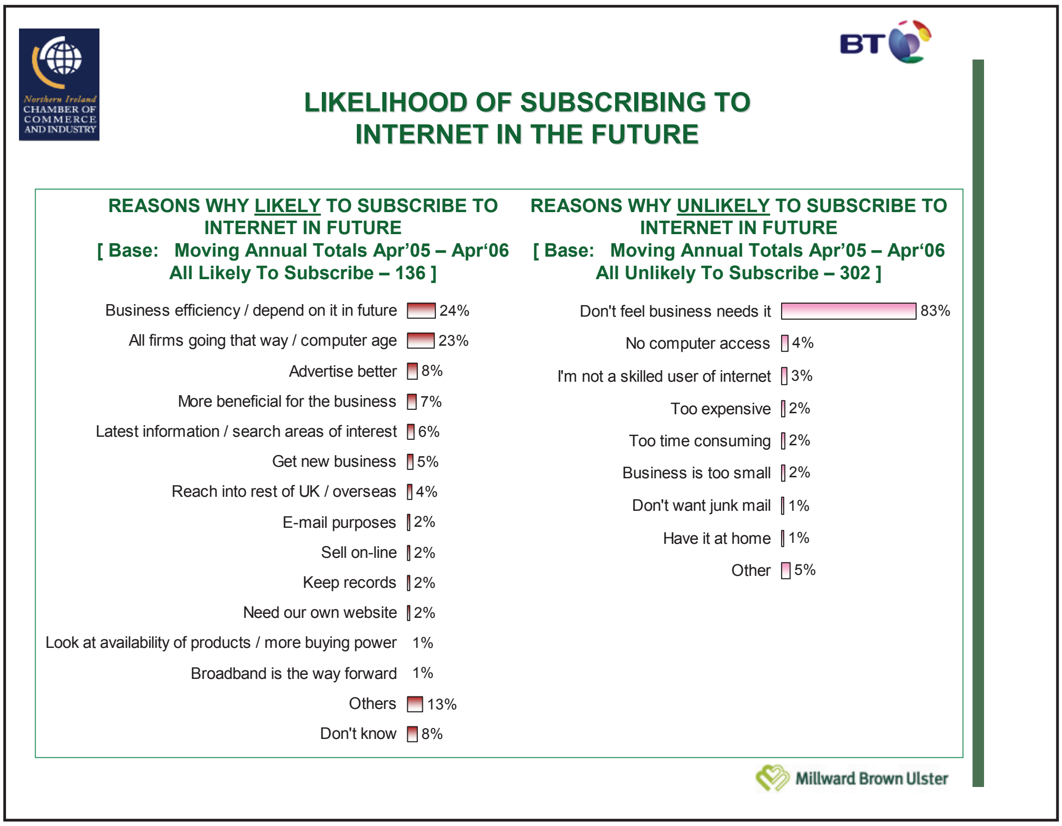
LIKELIHOOD OF SUBSCRIBING TO INTERNET IN THE FUTURE
REASONS WHY LIKELY TO SUBSCRIBE TO INTERNET IN FUTURE
[Base: Moving Annual Totals Apr'05 – Apr'06
All Likely To Subscribe – 136]
Business efficiency / depend on it in future 24%
All firms going that way / computer age 23%
Advertise better 8%
More beneficial for the business 7%
Latest information / search areas of interest 6%
Get new business 5%
Reach into rest of UK / overseas 4%
E-mail purposes 2%
Sell on-line 2%
Keep records 2%
Need our own website 2%
Look at availability of products / more buying power 1%
Broadband is the way forward 1%
Others 13%
Don't know 8%
REASONS WHY UNLIKELY TO SUBSCRIBE TO INTERNET IN FUTURE
[Base: Moving Annual Totals Apr'05 – Apr'06
All Unlikely To Subscribe – 302]
Don't feel business needs it 83%
No computer access 4%
I'm not a skilled user of internet 3%
Too expensive 2%
Too time consuming 2%
Business is too small 2%
Don't want junk mail 1%
Have it at home 1%
Other 5%
Northern Ireland CHAMBER OF COMMERCE AND INDUSTRY
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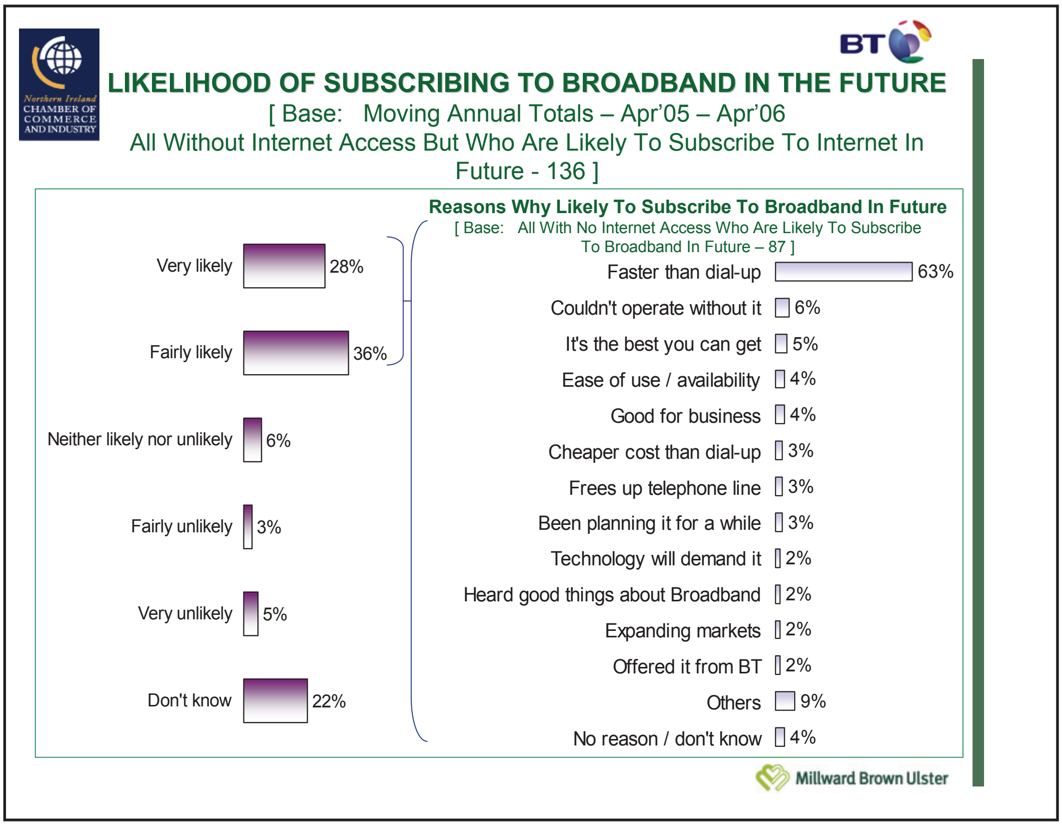
LIKELIHOOD OF SUBSCRIBING TO BROADBAND IN THE FUTURE
[Base: Moving Annual Totals – Apr'05 – Apr'06
All Without Internet Access But Who Are Likely To Subscribe To Internet In Future - 136]
Very likely 28%
Fairly likely 36%
Neither likely nor unlikely 6%
Fairly unlikely 3%
Very unlikely 5%
Don't know 22%
Reasons Why Likely To Subscribe To Broadband In Future
[Base: All With No Internet Access Who Are Likely To Subscribe To Broadband In Future – 87]
Faster than dial-up 63%
Couldn't operate without it 6%
It's the best you can get 5%
Ease of use / availability 4%
Good for business 4%
Cheaper cost than dial-up 3%
Frees up telephone line 3%
Been planning it for a while 3%
Technology will demand it 2%
Heard good things about Broadband 2%
Expanding markets 2%
Offered it from BT 2%
Others 9%
No reason / don't know 4%
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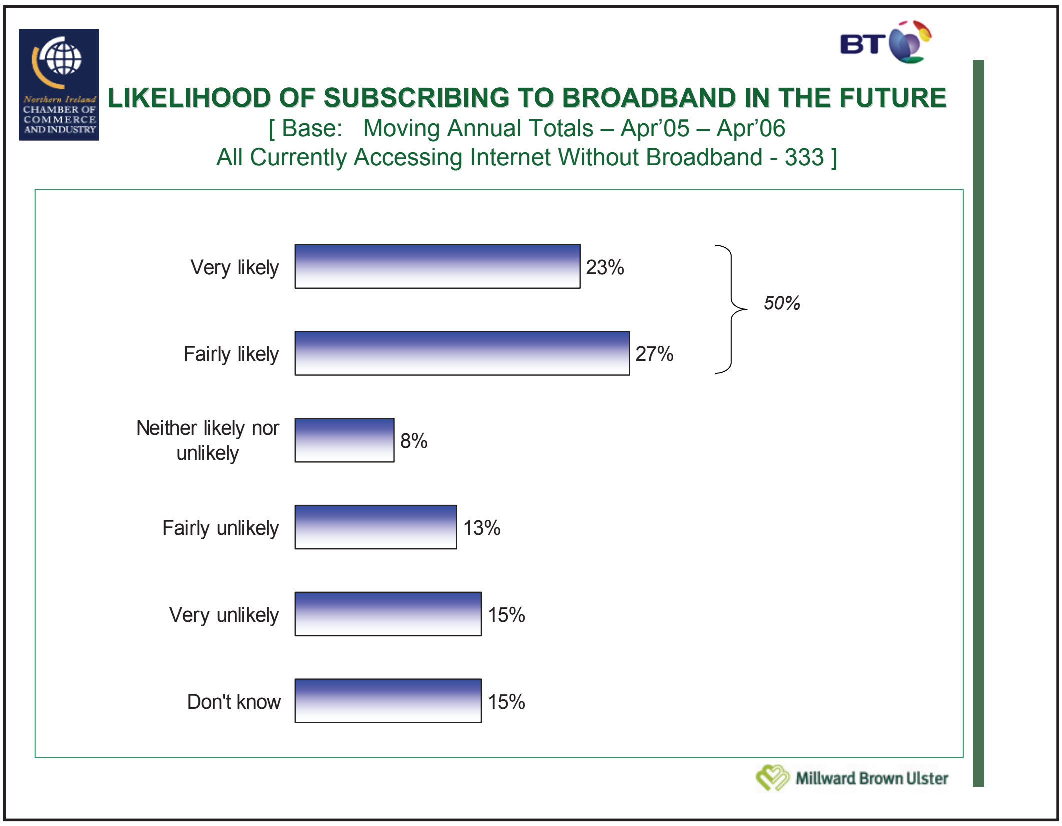
LIKELIHOOD OF SUBSCRIBING TO BROADBAND IN THE FUTURE
[Base: Moving Annual Totals – Apr'05 – Apr'06
All Currently Accessing Internet Without Broadband - 333]
Very likely 23%
Fairly likely 27%
50%
Neither likely nor unlikely 8%
Fairly unlikely 13%
Very unlikely 15%
Don't know 15%
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LIKELIHOOD OF SUBSCRIBING TO BROADBAND IN THE FUTURE

[Base: Moving Annual Totals – Apr'05 – Apr'06
All Currently Accessing Internet Without Broadband – 333]

REASONS WHY LIKELY TO SUBSCRIBE TO BROADBAND IN FUTURE

[Base: 165]

Reason	%
Faster than dial-up	44%
Technology will demand it	8%
Ease of use / availability	6%
More business being conducted over the internet	5%
Cheaper than dial up	5%
Free's up phone line	4%
Could not operate without it	3%
Best you can get	3%
Currently on the way	3%
Expanding markets	3%
Trying to develop on-line trading	2%
Hopefully reduce calls	2%
Don't know / no reason	5%
Others	17%

REASONS WHY UNLIKELY TO SUBSCRIBE TO BROADBAND IN FUTURE

[Base: 92]

Reason	%
Don't feel we have a need for it	68%
Cost implications	7%
Can't get it in this area / too far from exchange	7%
Not computer literate	5%
Happy with current service	5%
All we need is to communicate with head office	3%
Hassle of change	1%
Have not thought it through	1%
Don't know	4%
Others	6%

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MOST IMPORTANT ATTRIBUTE WHEN CHOOSING A TELECOM PROVIDER / OR BUSINESS CALL PACKAGE

[Base: Moving Annual Totals – Apr'05 – Apr'06 - 2000]

	Total	SECTOR: Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service – Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other Services
n =		140	260	200	180	180	680	360
		%	%	%	%	%	%	%
Price	37%	33	42	33	36	38	37	36
Reliability of service	31%	30	28	34	33	29	30	30
One stop shop or all my telecoms needs	9%	10	10	9	10	9	9	8
One bill for calls and line rental	8%	12	7	7	5	7	9	7
A single point of contact for all enquiries	5%	7	4	7	3	5	6	4
Analysis tools that help me monitor and control call patterns and spend	1%	1	2	4	2	2	1	1
Don't know / none of these	9%	8	7	7	10	9	9	11

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IMPACT ON BUSINESS OF NOT HAVING AN ALL IRELAND MOBILE ROAMING RATE

[Base: All Respondents – Q2 / Q3 2005 + Q4 2006 - 1500]

	Total	SECTOR: Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service – Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other Services
n =		105 %	195 %	150 %	135 %	135 %	510 %	270 %
Of little impact, we rarely travel or conduct business in RoI	47%	47	42	41	43	51	48	51
Of significant impact, as we are located in an area where roaming into RoI networks is common place	15%	13	19	24	19	14	11	11
A drain on our mobile costs as much of our business is conducted in RoI	9%	9	8	13	11	7	10	9
None of these	29%	31	31	22	27	28	31	30

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MOST APPEALING OPTIONS TO BUSINESS

[Base: All Respondents – Q2 / Q3 2005 + Q4 2006 - 1500]

	Total	Size of company: 1-10 Employees	11-24 Employees	25+ Employees	Sector: Agriculture, forestry and fishing	Manufacturing of food, drinks, textiles, clothing and electronics	Construction and tradesmen	Service - Professional	Service - Leisure, hotels and catering	Service, Retail / distribution	Other services
n =		1248 %	163 %	88 %	105 %	195 %	150 %	135 %	135 %	510 %	270 %
Free calls between mobiles	46%	44	55	58	30	47	55	57	42	47	44
Free calls from NI when travelling to RoI	34%	34	38	30	31	39	42	33	30	34	31
Locally based customer service	28%	28	31	28	26	23	29	28	34	30	26
Free handsets or cashback options when renewing a contract	27%	27	22	31	30	28	30	29	26	26	22
Free hardware and additional airtime credits	17%	17	18	18	13	16	22	19	15	17	18
None / don't know	24%	25	21	17	35	22	12	21	23	25	28

Millward Brown Ulster

Construction Employers Federation

CEF

INVESTOR IN PEOPLE

Construction Employers Federation

143 Malone Road, Belfast BT9 6SU
Telephone: 028 9087 7143
Facsimile: 028 9087 7155
E-mail: mail@cefni.co.uk
Website: www.cefni.co.uk

Our Ref *p:\nia\patterson270706*

Mr A Patterson
Room 414
Parliament Buildings
Stormont
BT4 3XX

1 August 2006

Dear Mr Patterson

SUB-GROUP ON THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND

The Construction Employers Federation is the employer's organisation and trade association for the construction industry in the Northern Ireland. We represent the interests of over 1000 construction companies.

We are pleased to submit the following comments with regard to the Sub-Groups Terms of Reference.

1 **Major impediments to the development of the Economy in Northern Ireland**

It is our belief that one of the main impediments to the development of the local economy bureaucracy and the current planning system. An efficient planning system must facilitate appropriate development while at the same time ensuring that legislative and environmental considerations are considered.

The Federation believes that despite significant efforts to improve the efficiency of the current planning system both the Area Plan Programme and the Development Control Process are too protracted for the development of a modern economy in Northern Ireland.

Area Plan coverage

Specifically, with regard to Area Plan coverage for the Province, the six stage procedure from initial information gathering to final plan adoption takes far too long. This is witnessed by the current situation with regard to the Belfast Metropolitan Area Plan, final adoption of which is unlikely to take place before 2010. The same principles apply to the other area plans many of which are as yet incomplete.

Development Control Process

Planning applications require consultation with and consideration by a number of consultees the main ones being the Road Service, Water Service and the Environment and Heritage Service. This consultation process often lacks laid down response time frames and as a result it is not uncommon for planning applications to take in excess of two years to go through the whole process. This in our belief is a major deterrent to investment in the local economy.

Governance and Bureaucracy

A further impediment to the development of the economy in Northern Ireland we believe is the issue of over governance and bureaucracy.

Currently there are eleven Government Departments for a Province which is approximately the size of Yorkshire. Of particular concern to us is the existence of two Government Departments, the Department for Regional Development and the Department of the Environment, both of which have input into the planning system. This is both inefficient and ineffective. It is our opinion that significantly fewer Government Departments would be more appropriate for a province the size of Northern Ireland

2 **Fiscal Incentives that may promote foreign direct investment and indigenous investment.**
The federation is supportive of the view that a reduced rate of Corporation Tax would act as significant incentive for both foreign direct and indigenous investment.

We understand fully the issues surrounding the implementation of a differential tax regime within the UK however; we believe that currently Northern Ireland is at a distinct disadvantage to our neighbours in the Irish Republic, due to the higher rate of Corporation Tax in this jurisdiction.

3 **Economic Package/Peace Dividend.**
The province has suffered from some 30 years of under investment in its infrastructure. This is currently being addressed in part through the Reinvestment and Reform Initiative and the Investment Strategy for Northern Ireland.

Both these initiatives facilitate significantly extended borrowing powers for the public sector, subject to the creation of appropriate revenue streams to service such borrowing. These revenue streams will be created primarily through changes to the rating system and through the introduction of water charging.

Water charging is a very politically sensitive issue and it is our opinion that an economic package/peace dividend that at least in part cushioned the impact of the introduction of water chargers would be of significant benefit to the local economy.

I trust these comments are of assistance.

Yours sincerely

JOHN R ARMSTRONG
Managing Director

International Centre for Local & Regional Development

Economic Challenges Facing Northern Ireland

Jim Wells, MLA
Chairperson
Sub-Group on the Economic Challenges Facing Northern Ireland

Dear Mr. Wells,

Thank you for your request to submit comments regarding this important initiative. The International Centre for Local and Regional Development (ICLRD), based in Armagh, is very pleased to have the opportunity to submit comments to the Sub-Group.

Our comments are drawn from the recently completed study on *Spatial Strategies on the Island of Ireland: Development of a Framework for Collaborative Action*. The report, carried out for Inter*Trade*Ireland by ICLRD, outlines how the development of a collaborative framework and action agenda will enable both jurisdictions to draw upon their mutual and combined assets to enhance the competitive position and social economy of the island, North and South. Continued leadership and receptive financial and political environments are critical to fostering collaboration on spatial planning, economic development, infrastructure investment and the delivery of quality services. The work of the Sub-Group in highlighting awareness of these inter-related issues represents a very positive step towards addressing the issues facing the Northern Ireland economy.

Considering the terms of reference for the Sub-Group on the Economic Challenges Facing Northern Ireland, we have structured our comments in alignment with the major areas of interest highlighted by the Sub-Group. The report is available for download from the Inter*Trade*Ireland website.[1]

1. ***Identifying major impediments to development of the economy in Northern Ireland***

   - Ongoing poor alignment between spatial planning strategies and business decision-making processes, resulting in low levels of investment in R&D which puts constraints on the performance of the knowledge economy.
   - There is a need for more robust research to facilitate understanding of:
     - development patterns, trends and drivers of growth in Northern Ireland;
     - the regional role of towns and cities;
     - the impact of cross-border catchment areas on policy development; etc.
   - An ongoing over-reliance on the public sector (accounts for 62% of GDP);
   - There is a need to progressively shift to a more balanced ratio of public and private sector contributions to the Northern Ireland economy.
   - Competitiveness issues arise due to existence of different currencies, tax systems, legislation and administration regimes in Northern Ireland and the Republic of Ireland.
   - More strategic linkages are required between the spatial planning strategies and development policies within the respective jurisdictions, especially those that impact on economic competitiveness at the all-island level and in particular underdeveloped regions within Northern Ireland, such as the Border Region.

[1] www.intertradeireland.com/module.cfm/opt/29/area/Publications/page/Publications/alpha/S).

- In the context of the global economy it would benefit both jurisdictions to be presented jointly to increase competitiveness and offer critical mass and economies/efficiencies of scale.
- There are gaps in the reliability of existing data sources which need to be addressed in order to facilitate more timely planning decisions.
- Northern Ireland is not competing sufficiently in the delivery of high level goods and services which results in a the low rate of indigenous business formation.
- There is clearly a need for a stronger enterprise culture based on high level skills that are required for Northern Ireland to compete as a knowledge and service-based economy.

2. *Considering fiscal incentives to promote Foreign Direct Investment (FDI) and indigenous investment*

- Re-imaging of Northern Ireland – in order to generate a more positive climate for business growth and development.
- Research is required to advance understanding of the dynamic linkages involving spatial planning policies, employment mobility, infrastructure investments and fiscal incentives.
- There is a need for greater synergy between spatial planning, economic development, inward investment and business engagement in growing the private sector.
- Promote balanced regional development to address the East/West divide through enhanced infrastructure investment and targeting incentives towards deprived areas such as the West and North West.
- There is a need to facilitate investment growth in R&D and the knowledge-based activities through the promotion of regional specialisation or development of ‘innovation hotspots’, knowledge clusters and centres of excellence.
- Better understanding of existing and potential economic connectivity, supported by transport/communication linkages with other regions in the UK, RoI and the EU.
- Fiscal incentives should be directed towards the promotion of economies/efficiencies of scale especially with regard to infrastructure investments and the provision of services.
- Joint grants/incentive packages need to be established with representative agencies such as IBEC-CBI, Joint Business Council, and Inter*Trade*Ireland.
- There needs to be a level playing field in the rates of corporation tax to facilitate/attract the flow of inward investment to Northern Ireland relative to the more lucrative rates which apply in the Republic of Ireland.
- Provide greater impetus to the Regional Development Strategy’s agenda of promoting infrastructural investment and the development capacities of the Key Transport Corridors.
- Need to encourage opportunities along the development corridors and in cross-border areas that draw upon the combined assets of labour markets, affordable housing, public service provision and waste management.
- Establishment of cross-border innovation networks linked to FDI and indigenous business growth initiatives.

3. *Considering how other matters including economic package/peace dividend could contribute to economic regeneration*

- In the context of devolution dynamic leadership will be necessary at regional and local levels for identifying priority issues and in setting the agenda/programme for action.
- Strategic infrastructure investment is a prerequisite for successful and sustainable economic growth of the region, and more efficient utilisation of already existing services and facilities. This is critical given the substantial level of funding programmed for infrastructure and services over the next decade in Northern Ireland and the Republic of Ireland.
- Promotion of sustainable territorial development will necessitate a range of regional and local development programmes that foster cooperation among different key actors.
- Identification of growth centres (also known as Strategic Employment Locations) and development of key corridors between core cities and across the border. By increasing critical mass, these areas will be more attractive to investors. Investment should be concentrated in these areas
- Strategic collaboration with RoI – building upon existing initiatives. For example, the adoption of common policy for functional regions or joint environmental policy for areas with cross-border dimension.
- To optimise the benefits of cross-border cooperation it is essential that infrastructure deficits in the border counties be addressed.
- The consolidation of the peace process together with public investments send positive signals to the private sector interested in locating businesses in the border counties.
- Regarding the Review of Public Administration, an important challenge for local authorities is to align strategic spatial planning policies with the economic needs of their area through local development plans.

A key message from the consultative process undertaken for the study is that collaboration between the spatial strategies will enhance the competitiveness of the island of Ireland and deliver mutual benefits to both jurisdictions.

International best practices in inter-jurisdictional cooperation show that collaboration on strategic spatial planning and the provision of infrastructure are critical for competitive business development and enhancing the quality of life and services which are crucial for attracting higher-value economic activities.

Within a regeneration context, the community interface areas of the larger urban settlements present a significant challenge in addressing the social problems and negative perceptions in order to secure new inward investment. Meeting this challenge will require targeted support for: providing community and physical infrastructure improvements; redressing issues of social need including education, health and welfare; facilitating opportunities for employment growth and labour productivity based on an ethos of quality jobs and lifelong skills development. Raising the profile of these interface areas will require innovative strategies and policy development which will link the social dimension to economic restructuring.

ICLRD recommends that the key Government Departments, together with the support of existing cross-border institutions and bodies as well as the business sector, should drive the collaborative framework. Furthermore, the framework offers the potential to create the modalities for respective Government Departments to align infrastructure investment with spatial planning strategies and policies to promote economic competitiveness and business growth.

Given the tight time line to which the Sub-Group is working, we hope this briefing is useful concerning your deliberations on the challenges facing the Northern Ireland economy. These issues are of considerable interest to the research agenda set for the ICLRD. Indeed, the Centre will be hosting a major conference on the theme of spatial planning strategies on the island of Ireland, scheduled for Thursday 9th November 2006, to be held in the Canal Court Hotel in Newry. We will forward conference details to the Sub-Group members once the programme has been finalised.

Kindest regards,

John Driscoll
Project Director
International Centre for Local and Regional Development.

August 7, 2006

Extract: Spatial Stratigies on the Island of Ireland: Development of a Framework for Collaborative Action

Executive Summary

Strategic Planning and Infrastructure: why should we collaborate?

In the context of globalisation, the challenges faced by the economies of Northern Ireland and Ireland in maintaining and enhancing their competitiveness are similar. Around the world, strategic planning and carefully targeted investments in infrastructure are being used to better position economies. The creation of a competitive and high quality environment for economic development through collaboration on strategic planning and investment in infrastructure are key areas where Northern Ireland and Ireland share opportunities and challenges. International evidence shows that collaboration between separate countries on spatial development and infrastructure co-ordination can increase their competitiveness while maintaining the integrity of individual jurisdictions.

What we are doing at present?

There are two spatial strategies on the island of Ireland – the National Spatial Strategy (NSS) for Ireland and the Regional Development Strategy (RDS) for Northern Ireland. There are also separate programmes for investment in infrastructure. Moreover the economies of Northern Ireland and Ireland have distinct characteristics and performances. However the two spatial strategies on the island have many mutually interdependent characteristics such as the recognition of the potential of the Dublin/Belfast corridor and Letterkenny/ Derry/Londonderry area in the North West. Much practical and day-to-day co-operation is occurring in areas such as investment in energy and transportation networks.

Much of this co-operation in investment is focused on tackling historical infrastructure deficits e.g. in the road networks.

Looking at the two spatial strategies, there is a sense that given the pace of change internationally, the rate of economic and population growth on the island of Ireland and the dividends from the peace process, much more could be done to take forward innovative aspects of both spatial strategies within a framework for collaboration. Examples would include:

- Accelerating the development of key corridors between core cities, towns and intervening rural areas, and
- Strategic infrastructure interventions to improve access to the North West.

We need to make a step change...

There are three options for advancing a more collaborative and strategic approach to planning and infrastructure investment.

Option 1: To continue existing informal arrangements on a business as usual basis;

Option 2: To consider the potential for a new all-island spatial planning initiative, with associated new structures;

Option 3: To establish a new framework for collaborative action on spatial planning and infrastructure co-ordination, building upon existing arrangements.

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The full submission can be downloaded from the following location: http://www.intertradeireland.com/module.cfm/opt/29/area/Publications/page/Publications/alpha/S

The key finding from this report is that the two governments should adopt Option 3 above and declare their commitment to the development of an ambitious collaborative planning framework for the island of Ireland. Building upon the two existing spatial strategies, this option combines the benefits of a more pro-active approach, without having to take on the complexities and challenges involved in considering and establishing new structures.

A framework for collaboration – what would be in it?

Taken together, the two spatial strategies in place within the two jurisdictions on the island and the ambitious capital infrastructure spend over the next 10 years - estimated to be of the order of €100 billion over the whole of the island - present an unprecedented opportunity. This opportunity centres on creating enhanced, globally competitive and dynamic economic conditions on the island of Ireland, supported by the co-ordinated implementation of strategic, forward looking planning frameworks and investment in infrastructure of the type and scale necessary to sustain these conditions. A framework for collaboration to co-ordinate the implementation of the two spatial strategies and infrastructure investment plans on the island will form a key part of realising this opportunity.

Building on proposals in the NSS and RDS for co-operation and co-ordination of the respective spatial strategies, the framework for collaboration should take a high level and non-statutory view, to be shared by both Governments, of how to co-ordinate spatial planning and development on the island of Ireland. The framework should address how the mutually interdependent aspects of the two spatial strategies will be taken forward, particularly through identifying the targeted infrastructure investment programmes which will support both strategies and their complementary regional and local planning initiatives.

Government Departments, with the support of existing cross-border institutions established under the Belfast Agreement will ultimately have to drive the preparation of the framework within an agreed action agenda. As this action agenda is progressed further consideration will need to be given to the most appropriate arrangements to drive the process.

The framework should initially take an overview of the key spatial planning issues and the main mutual interdependencies between the NSS and RDS, and should subsequently set out proposals around three key themes:

(1) Initiation of a focused range of **regional and local spatial planning initiatives** for key development areas identified in both spatial strategies. For example, the Letterkenny – Derry/Londonderry area and other key cross-border interfaces;

(2) A prioritised programme of **highly strategic and targeted investments** to support key aspects of both spatial strategies. For example, improved accessibility to areas identified for accelerated growth in the strategies;

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(3) A programme of **spatial planning research** to deepen our understanding of development patterns, trends and their drivers on an all-island basis including the development of a comprehensive all-island statistical database.

The framework must also work to support a better alignment between the strategic planning and business decision-making processes. It must harness and facilitate existing structures by providing new collaborative working arrangements that energise stakeholders in the business and planning sectors.

Towards an action agenda...

It is beyond the scope of this report to specify the precise content of the framework. That is a matter for the two Governments to consider and develop. However, the action agenda for government will require:

- Endorsement by both Governments of the role and value of a collaborative framework;
- Specification, by the Governments, of the content of the above, building on this report and drawing upon the advice of national experts and key stakeholders such as the business community; and
- Highlighting the key responsibilities and tasks for stakeholder groups engaged in the process of preparing the framework including the most appropriate arrangements to drive the process forward.

Conclusion

The rapidly growing population, continuing improvement in economic conditions and the ongoing dividends of the peace process are generating the resources needed by the two Governments to invest in the productive capacity and development potential of the island of Ireland. This substantial capacity for investment now demands in turn a high level framework for collaboration on spatial and strategic infrastructure planning to:

- inform future investment programmes,
- maximise synergies between different aspects of investment programmes,
- underpin balanced regional competitiveness, and
- reposition and re-image the island in general as a globally innovative and competitive location.

Implementing the recommendations of this report will produce a collaborative framework that can inform the National Development Plan 2007-2013 in Ireland, and the three-year rolling Government Programme Spending and Priorities in Northern Ireland.

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Economic Development Forum

Department of
Enterprise, Trade and Investment
www.detini.gov.uk

FROM THE PERMANENT SECRETARY
Stephen Quinn

Mr Jim Wells, MLA
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Your reference:
Our reference: PSDETI 400/06
7 August 2006

Dear Mr. Wells

1. Thank you for your 31 July letter asking for the Economic Development Forum to provide views to the Sub-group examining the economic challenges facing Northern Ireland, in accordance with your terms of reference.

2. Your letter also indicates that, if the Sub-group decides to continue to take evidence after its deadline, the Forum may be asked to attend.

3. While the Economic Development Forum has had extensive discussions on many aspects of the NI economy and the challenges facing it, the Forum has not taken an overall view – apart from adopting the Economic Vision for NI – on a specific agenda or package of proposals to secure a more sustainable economy. I doubt therefore that it would be possible for the Forum to reach a consensus position in the timescale available (9 August) on the precise terms of your request.

4. However, each of EDF's four Vision Sub-groups (Innovation, Enterprise, Skills and Infrastructure) has produced an agenda of key issues to advance the NI economy and I enclose a copy of their latest reports to EDF plenary (Annex A). This may assist the Sub-group in identifying target areas. I also enclose a copy of the minutes of EDF's discussion on the corporation tax proposal at its plenary meeting in March and hope this may also be helpful (Annex B).

5. I understand that, in the course of its work programme, the Sub-group has or will be taking evidence from a broad cross section of the social partner organisations and government departments represented on the Forum. Nonetheless, if the Sub-group wishes and time permits, a delegation from EDF may be possible. An option may be for the Sub-group to take evidence from the Chairs of EDF's four Vision Sub-groups and its monitoring and forecasting Sub-group, who not only lead the debate on the four drivers of Economic Vision for NI but also help set the EDF agenda and participate in public statements.

6. You may also wish to note that we have forwarded to Alan Patterson the bulk of the data requested during the course of our evidence on 1 August. One outstanding issue, namely the impact of increasing inward investment on the NI economy, will be forwarded as soon as possible this week.

[redacted]

7. I hope that the Sub-group finds this material useful and, if I can be of further assistance, please let me know.

Yours sincerely

STEPHEN QUINN

Copy distribution list:

Wilfie Hamilton
EDF Chairs
EDF Secretariat

Annex A

29 May 2006

To: EDF Members

From: David Dobbin
Chair, Innovation Sub-group

INNOVATION SUB-GROUP – POSITION REPORT

1. At the December plenary meeting members indicated that they had identified 9 priority issues for the sub group

   - Tradeable Services
   - Nanotechnology
   - HE/FE Collaboration Fund
   - Centres of Excellence
   - Regional Science-Industry Council
   - Clustering
   - Innovation Skills
   - Innovation Metrics
   - Foresight

2. Since the March meeting the Sub-group's work has concentrated around recommendations for the next budget round, including the HE/FE Collaboration Fund, additional PhD's for nanotechnology, consideration of the establishment / merit of an overarching group such as Regional Science-Industry Council, innovation in the tradeable services sector and global tracking of innovation.

3. The Sub-group's report for the March 2006 plenary meeting reported progress on the Group's work in the above areas and since the March meeting, the Sub-group has met on one further occasion. Further progress is as follows: -

<u>HE/FE Collaboration Fund</u>

4. The main objective of this fund is to increase the technology transfer capability of both universities and colleges to respond to the needs of business (including companies of all sizes but especially SME's). The focus of the fund should be on wealth creation through knowledge transfer and exploitation. The responses to DEL's consultation on the proposed fund ended on 28 April and comments received were provided for the Sub-group meeting on 23 May. The Sub-group would like to see spend being directed towards providing business facing resource in FE colleges which would also act as a conduit for knowledge transfer from both Universities as appropriate. Both HE and FE sectors have agreed on a joint proposal approach and work is continuing to ensure that such a proposal will provide value for money. Once the proposal has been finalised it will be issued to Innovation Sub-group members. It is intended that a call for proposals will be made in the Summer with projects being approved before the end of 2006 and funded activities starting April 2007.

Nanotechnology

5. The Sub-group previously reported on the need to develop the critical mass in nanotechnology research through increased funding for research staff in nanotechnology areas. At the May Sub-group meeting, University representatives tabled a paper to highlight the need for funding of more PhD students over 5 key technology areas: Agri-food; Aerospace; ICT, Life Sciences; Nanotechnology. The University representative contended that such an investment in PhD's was needed to expand the capability and capacity of the region in key technology areas. Members agreed that this merited further examination particularly in the context of the HE sector's key role in relation to economic development. Members however raised concern about the apparent lack of a declared overall strategy/agenda of both universities in relation to the economy. The university representatives have been asked to prepare a paper for the Sub-group to summarise the Universities' vision and approach in relation to the economy, what initiatives they want to pursue, targeted outcomes and budget priorities. The Sub-group believe that this will provide the context for discussion on the case for additional research posts as well as contribute greatly to overall economic development plans.

NI Science-Industry Panel (NISIP)

6. In its March report, the Sub-group advised that a proposal had been put forward by DETI to establish a Northern Ireland Science Industry Panel (NISIP), an advisory panel to encourage the business community - in partnership with the public and academic sectors - to take a leadership role in the development of the region's science and R&D base, has been passed to the DETI Minister.

7. This proposal was accepted and the Terms of Reference for NISIP are being developed. A list of possible Panel members has been shortened following a consultation process. Wilfie Hamilton will provide a further verbal update at the June plenary.

Global Tracking of Innovation

8. At the March meeting the Sub-group reported that following consideration of a paper from Bob Barbour which set out the European Innovation Scoreboard and also the "hot spots" for innovation around the world, the Sub-group had plans to undertake further work in this area.

9. During discussion on how this issue should be progressed members recognised that there were areas of innovation around the world in which Northern Ireland had no involvement. Members agreed that there was a need to raise awareness of opportunities for NI businesses. DETI has been tasked with producing a paper for the Group's next meeting on where opportunities are arising and where Northern Ireland might be best placed to take advantage of these. The Group has also suggested that the issue of global tracking of innovation be included in the Terms of Reference for NISIP.

Other Issues

10. Tradable Services – at the May Sub-group meeting, Invest NI gave a presentation on progress in its development of a new tradeable services strategy. which would then be translated into specific sub-sector strategies. During discussions it was agreed that Invest NI needed to reconsider the structure of its support and appraisal model for the tradeable services sector and that priorities and targets on a sector basis were required. Members were also informed about developments with DETI's research on innovation in NI's tradeable services sector. The Sub-group were asked to input to the Terms of Reference for the project and DETI is currently engaged with the Procurement Service with view to issuing invitations to tender in the near future.

DAVID DOBBIN
Innovation Sub-group Chair

Annex A Cont'd

25 May 2006

To: EDF Members

From: Lord Rana
Chair, EDF Enterprise Sub-group

ENTERPRISE SUB-GROUP – POSITION REPORT

Background

1. At the December 2006 plenary meeting members agreed that the Sub-group's work would concentrate on the following 4 issues as priority areas for action by the Group in the coming months.

   (i) establishment of Advisory Group following AES review;

   (ii) exports (raising profile and importance of trade and encouraging smaller companies to adopt export route);

   (iii) improving the marketing of NI; and

   (iv) examination of entrepreneurial culture in NI and attitude to risk.

2. Since its last report in March, the Sub-group had a further meeting on 12 May when discussion was focussed on the marketing of NI and included presentations from Tim Losty, Director of the NI Bureau in Washington and Stephen McArdle Invest NI.

Progress

<u>Establishment of Advisory Group Following AES Review</u>

3. The Group's last update report advised that Invest NI, in conjunction with DETI, had formed an Evaluation Steering Group to undertake an initial assessment of the impact of the AES between 2003 and 2006.

4. The Entrepreneurship Division within Invest NI is undertaking a series of consultative meetings with key partner organisations which will be completed by early June. The objective of these meetings is to re-engage around a discussion of progress to date and achieve greater private sector participation in the next phase of the strategy. Organisations consulted include: Federation of Small Business; CBI; IOD; Ulster Society of Chartered Accountants; NI Chamber of Commerce; Enterprise Northern Ireland etc. Invest NI is also engaged in a consultative process with a range of other Government Departments including DEL, DARD, DE, DSD and DETI.

5. A situation report is currently being prepared which will draw together this consultation material and evidence of impact from a series of evaluations already carried out on the individual components of the AES (e.g. The Start a Business Programme). To this will be added details of the research findings from the Global Entrepreneurship Monitor and

other key sources. It is expected that an AES evaluation report will be prepared by September with a revised Strategy to follow in the autumn.

Exports (raising profile and importance of trade and encouraging smaller companies to adopt export route)

6. In its last report, the Sub-group advised members about the NI Chamber of Commerce and Industry work in relation to exports. An Export Forum has been established which aims to understand how to generate interest in exporting; identify best practice; identify areas which needed to be improved; and identify what the customer valued. The existing export support structures available to SMEs within NI were reviewed and compared with other regions of the UK and the Republic of Ireland. Also, working with Invest NI a sample group of 250 SMEs, not previously involved in export but considered to have an exportable product or service, were identified. A telephone survey has been conducted with this sample group to identify the perceived barriers to export and the services or incentives that would encourage them to export. The survey is now complete and results are being tabulated.

7. The next step will be for the Export Forum to review the survey results and develop a set of proposals which it believes would encourage and support SMEs to engage in or grow their export activity. It is intended that a solutions paper will be presented in August / September 2006.

Improving the Marketing of Northern Ireland

8. In the context of the Sub-group's recommendation that better generic marketing of NI as a quality place to live and do business was needed, DETI undertook some initial work to identify what is currently available on the web. From this work, presentations from Tim Losty on the NI Bureau in Washington and Stephen McArdle on Invest NI's business information portal were provided at the Sub-group's meeting on 12 May. Members were impressed with the breadth of information available through the business information portal and the ease with which it could be retrieved. While they recognised that the portal is aimed primarily at local business people and promoting Invest NI's business information, they felt that its potential value to business people overseas, was perhaps more limited. EDF members felt that in addition to this particular portal, work should continue to examine existing material which emphasised Northern Ireland's overall image in a positive way i.e. covering all that Northern Ireland offers, clean and green pollution free environment; quality of life; warm friendly hospitable people; and quality of education institutions and health service. A nice place to visit, to work in……to settle in. Creating interest in Northern Ireland is not just for business but for tourism. Today's tourist could be tomorrow's investor. DETI will continue to work with Invest NI to see how best this might be achieved. Members will receive a presentation on the NI Portal at the Group's next meeting in August.

Examination of Entrepreneurial Culture in NI and Attitude to Risk

9. In its March report the Sub-group advised that DETI Economists would produce a scoping document for the Enterprise Sub-group to consider. It is intended that this paper will identify the specific areas of research that might be pursued under the broad umbrella of 'risk aversion' and attempt to identify existing research relating to this wide

ranging topic. Following discussions, the areas identified for further exploration include risk aversion within the public sector and amongst the general public, novice entrepreneurs and existing well-established businesses. The wider issue of risk aversion in the local private sector (in particular local banks) is also being considered. Work has begun in scoping this research and a 'way-forward' paper will be available before the next sub-group meeting in August.

Recommendation

10. The Enterprise Sub-group recommends that members note the contents of this progress report. The Sub-group intends to meet again during August and a further update on progress will be provided for the September plenary meeting.

LORD RANA

Annex A Cont'd

1 June 2006

To: EDF Members

From: Michael Maguire
Chair, Skills Sub-Group

SKILLS SUB-GROUP POSITION REPORT NO. 5

Since the last forum Skills-Sub Group Members participated in a 2.5 day workshop on careers advice and information in Northern Ireland. The Sub-Group also met on 31 May.

Progress to Date

At the last Plenary EDF Session Members received a presentation on the DEL Skills Strategy. Members have previously welcomed the close correlation between the EDF Vision on skills development and the DEL Strategy. The purpose of the skills strategy is to better ensure that individuals have the skills they need to enhance their employability and that employers will have access to the necessary skills to develop their businesses successfully within the economic objectives of increasing FDI, encouraging SME growth, developing a strong entrepreneurial base and increasing the literacy and numeracy of the population. The skills strategy identified four key themes:-

- Understanding the demand for skills
- Improving the skills levels of the workforce
- Improving the quality and relevance of education and training provision
- Tackling the skills barriers to employment and employability

Members recognised that the strategy provided a comprehensive and coherent roadmap for the way forward and stated that collaboration with other Departments and stakeholders such as EDF would be critical.

The Sub-Group asked DEL for clarity around the budget allocation within the skills strategy to ensure that the funding is being correctly allocated and that additional funding will be in place to deliver the skills priorities across the four themes. DEL was asked to provide a breakdown of the budget allocation for the skills strategy including clarity on the additional support to be provided. This information with some additional analysis is presented in Appendix A).

Having reviewed the funding profile at the sub-group meeting Members identified a number of significant concerns. Our major concerns are:-

- There appears to be a severe imbalance within the profile of the proposed expenditure – 97% of expenditure is focused on theme 3 "improving the skills levels of the workforce". – leaving 3% to cover the remaining themes.

- There is limited "new" money available to deliver on the skills agenda (totalling just £8.85m from a total expenditure of £460m)

- There are a number of key areas that do not appear to have any budgetary cover. We recognise that this is a complex area and that the various themes are interconnected. However there is in our view a need for a more robust linkage between the strategic intent of the strategy, the areas that are being funded and the impact and outcomes of the funding.

- Members noted at the last meeting that performance measurement was a significant component of the strategy moving forward. There is no budget allocation for this activity. This is not only about ensuing that the correct measures are in place but also ensuring that on an on-going basis appropriate monitoring and evaluation is undertaken.

Looking more closely at the profile of the current expenditure the picture that emerges is of an historical allocation of resources rather than a planned approach to the development of tasks and activities based on the delivery of strategy priorities. In particular:-

- It is difficult to match the profile of expenditure against the strategic priorities identified by EDF and the DEL Skills Strategy For example, theme 4 "tackling the skills barriers to employment and employability" has an allocation of £56m – there is no clear rationale for this number other than this is what has been spent in previous years. The budget for theme 4 represents we understand the current budget for preparation to work programmes. Again we understand its purpose is not exclusively to address skills barriers, not is it possible to separately identify an amount to be used to address skills barriers.

- Higher Education receives and allocation of £230m – DEL has limited direct control over this expenditure as it is operated under charter within the University system. While we understand that Universities are not resistant to the idea of aligning their provision to meet skills needs there is no direct assurance that the actual expenditure will meet the economic demands of the strategy.

- Further Education receives an allocation of £163m. While significant attempts have been made to re-orients FE provision through education means business – expenditure in this area is based on student demand rather than an allocation based on strategic priorities. There is a potential disconnect between the strategic intent of education means business and actual provision. We are aware that the Department is trying to address this potential disconnect. Further work is required to consider the profile of training provision against the strategic intent of the strategy.

Overall there is a risk that the current funding profile will not deliver the strategic intent of the Department's skills strategy. The information provided suggests there is a need for further work to ensure that the skills strategy is adequately resourced in order to meet the challenges set out across the four themes. The skills sub-group are happy to work with the Department on this area.

Other Issues

- Members participated in a "future search" conference on the development of careers advice and education. DEL and DE are preparing a joint paper on the development of careers advice and information for young people. This is to be considered by the Sub-Group

- Invest NI have been asked to present to the sub-group on the linkages with DEL in relation to skills development and FDI. We understand INI /DEL are preparing a joint paper t be considered by the sub-group

- Further work is required in relation to the delivery of EDF objectives on the development of literacy and qualifications of the workforce in Northern Ireland. The role DE will be central to this proposition. At the moment there is no direct alignment between the EDF Vision objectives an on-going activity within the Department of Education.

Appendix A - SKILLS STRATEGY – FUNDING 2006/2007

Theme 1 Understanding the demand for Skills

PROJECT	FUNDING ALLOCATION	COMMENTS
E/R Skills Needs Analysis	£1.8m	Includes £140K for 'Priority Skills' research
Labour Market Information	£.05m	ERINI and Nat Centre for Educ. & Emp. research.
Regional Employment & Skills Action		
Skills for Innovation		Recommendations to be taken forward within existing HE/FE budgets (see below)

Theme 2 Improving the Skills Levels of the workforce

PROJECT	FUNDING ALLOCATION	COMMENTS
Essential Skills	£5.777m	
Careers Education IAG	£1.322m	Excludes DE funding and £.360m for Training Support Services for the Disabled
Management & Leadership	£1.3m	
Investors in People	£0.294m	
Adult Skills	£3m*	*New initiative

Theme 3 Improving the Quality & Relevance of education and training

PROJECT	FUNDING ALLOCATION	COMMENTS
Higher Education	£230.7m	Includes capital grants £33.6m
Further Education	£163m	Includes capital grants £28m. Vocational Qualifications reform and VEP included.
Reconfiguration of training	£51.652m	*New initiative - £5.85m for Skills/Science
Quality Improvement		Existing resources.

Theme 4 Tackling the skills barriers to employment and employability

PROJECT	FUNDING ALLOCATION	COMMENTS
Building on New Deal	£56.181m	No specific 'allocation' as yet. Project will be taken forward within the existing level of provision.

UNDERPINNING STRANDS

	Skills Strategy Funding 2006/2005			
	Theme/Project	Funds (£ m)	% of thematic funding	% of total 2006-2007 funding
	Understanding the demand for skills			
Theme 1	E/R Skills Needs Analysis	1.8	97%	
	Labour Market Information	0.05	3%	
	Regional Employment and action	0	0%	
	Skills for Innovation	0	0%	
	Total allocated	***1.85***	***100%***	***0.40%***
	Improving the Skills Levels of the workforce			
	Essential skills	5.78	49%	
	Careers Education IAG	1.32	11%	
Theme 2	Management & Leadership	1.3	11%	
	Investors in People	0.29	3%	
	Adult Skills	3	26%	
	Total allocated	***11.69***	***100%***	***2.54%***
	Improving the Quality & Relevance of education and training	446.35		
	Higher Education	230.7	52%	
Theme 3	Further education	163	37%	
	Reconfiguration of Training	52.65	12%	
	Quality Improvement	0	0%	
	Total allocated	***446.35***	***100%***	***97.01%***
	Tackling the skills barriers to employment and employability	0.195		
	Funding	0	0%	
Theme 4	Research	0.195	100%	
	Communication	0	0%	
	Performance Management	0	0%	
	Total allocated	***0.20***	***100%***	***0.04%***
Overall	**Total Funding - 2006/2007**	***460.09***		**100%**

STRAND	FUNDING ALLOCATION	COMMENTS
Funding		
Research	£.195m	General research budget
Communication		No new resources allocated
Performance Measurement		No new resources allocated

Annex A Cont'd

INFRASTRUCTURE SUB-GROUP REPORT TO EDF

1. This report to EDF by the Infrastructure Sub-Group covers the following main areas:

- Prioritisation of the Sub-Group's recommendations to EDF
- Issues relating to the Investment Strategy for Northern Ireland
  - Capacity to make progress
  - Promotion of economic elements
  - Energy

2. Prioritisation of Recommendations

2.1. The Sub-Group's report to EDF contained 12 recommendations directed at:

- the uptake of Broadband;
- problems in current planning processes;
- economic appraisals;
- Quality Bus Corridors and Park and Ride facilities;
- Strategic infrastructure investment.

2.2. The three recommendations dealing with planning processes can be pursued as part of EDF's consideration of Planning at its June meeting.

2.3. The recommendation relating to strategic infrastructure investment has been addressed with the publication of the Investment Strategy for Northern Ireland.

2.4. All but two of the five recommendations focussing on economic appraisals are being addressed by current and on-going action by the Department of Finance and Personnel.

2.5. The Sub-Group has assessed the priority of the remaining five recommendations as follows:

High Priority

- Business organisations should liaise with Government to determine the role they might play in influencing SMEs to increase their update of Broadband.
- DETI should explore with OFCOM the implications of the low level of competition among providers of Broadband in Northern Ireland as compared to other regions of the United Kingdom, and the scope to improve the position.
- EDF should contact the major consultancy firms which carry out economic appraisals to stress to them the benefits of engaging with the sponsoring departments at the earliest possible opportunity so that there is clarity about the scope of the appraisals and the methodology to be used.

Lower Priority

- EDF should monitor on a regular basis the development of a network of Quality Bus Corridors and Park and Ride facilities as a key element in bringing about the modal shift to public transport.
- Government should bring maximum transparency to the decision-making process, showing economic factors are being considered along with economic appraisals and the weight attached to them.

3. ISNI

3.1. Capacity to make progress: the Sub-Group has noted the publication of work carried out by PWC for the SIB to assess the capacity of the private sector to cope with the major capital investment envisaged in the Investment Strategy for Northern Ireland.

3.2. The Sub-Group noted that the PWC study had confirmed two areas of concern:

- The expected skills gap;
- The limited capacity of local firms to play a major role in ISNI without engaging in partnership with other organisations outside NI to bid for work.

3.3. These issues threaten to reduce the benefit which the investment in ISNI delivers to the people of Northern Ireland.

3.4. SIB has also commissioned a study to assess public sector capacity to implement ISNI. It is important that this study is completed speedily in order to dovetail with the study of the private sector, and to allow implementation of ISNI to move forward without delay.

3.5. **Promotion of Economic Elements of ISNI:** ISNI contains a wide range of investment proposals. From EDF's perspective, it will be important to ensure that ISNI is integrated with the Economic Vision, and that the schemes which will produce economic benefit make good progress. EDF should monitor progress on

ISNI and should seek to promote the economic infrastructure elements, in line with the Economic Vision.

3.6. **Energy:** ISNI contains provision for energy schemes, mainly in the area of Renewables, but the overall amounts involved are modest, and the funding is front-loaded, tailing off from Year 4. Given the significant changes in the Energy field – and particularly the unprecedented price increases, with consequent impact on the economy – EDF might wish to give this issue attention. It might also be advisable to point to a need to review this element of ISNI in the light of changed and changing circumstances.

February 2006

Annex B

MINUTES OF THE TWENTY-SEVENTH MEETING
ECONOMIC DEVELOPMENT FORUM, 7 MARCH 2006
MALONE HOUSE

Present: See attached list (Annex 1)

Apologies: Angela Smith, Shaun Woodward, Stephen Quinn, Peter Bunting, Patricia McKeown, John Mann

1. WELCOME AND APOLOGIES / MINUTES OF LAST MEETING / MATTERS ARISING

1.1 The Chair advised members of the Minister's unavoidable absence because of a parliamentary commitment. She had hoped to be at today's meeting particularly for discussion on corporation tax and the regional economic strategy and had offered to meet with a delegation of EDF members to gain a first-hand appreciation at a future date. The Chair went on to advise members that following recent staff moves, Bruce Robinson now represented DFP and Aideen McGinley represented DEL. Today DE would be represented by Robson Davison. He explained that Stephen Quinn now represented DETI but was on leave at present and looked forward to meeting members at the June plenary.

1.2 The Chair welcomed Stephen Kingon to the Forum as Invest NI's representative and also welcomed the political party representatives: George Dawson, DUP, Mitchell McLaughlin, Sinn Fein, Roy Beggs, UUP and Sean Farren, SDLP. He also welcomed Sir George Quigley and Professor John McCanny who had joined members for discussion on the work of the Industrial Task Force.

1.3 The minutes of the last meeting were accepted without further amendment.

Matters Arising

Communications Strategy

1.4 The Chair advised that a final draft of the Forum's Communications Strategy incorporating comments received from members had been issued. Pending some further comments received, members were content to accept this as a working strategy and for it to be uploaded to the Forum's website.

ACTION: Secretariat to arrange for Communications Strategy to be uploaded to EDF website.

Planning Item

1.5 Members were advised that this item had been deferred until the June meeting and that Planning Service had agreed to join members for their discussion.

Start a Business Evaluation

1.6 The Chair reminded members about Invest NI's evaluation of the Start A Business Programme and invited Stephen Kingon to update members on progress.

1.7 Mr Kingon advised that a draft report had been received from the consultants and early indications were that although the Programme had made an economic impact its focus needed to be sharpened. In mid-March the report would be issued to key stakeholders for an 8 week consultation period. This would include Enterprise NI, local councils and the organisations represented on EDF.

1.8 Members enquired about Invest NI's funding position in terms of the latest funding round and the concordat. Members were particularly keen to know if the funding situation would result in any lost opportunities for investment. Members welcomed the assurance that if the concordat could be activated then the present situation – while not perfect – was workable, but asked that the agenda for the June meeting include an update on Invest NI's funding position.

ACTION: Invest NI to provide an update on its funding position for the June 2006 meeting.

2. SKILLS STRATEGY

2.1 Heather Stevens set the context for the Skills Strategy in terms of EDF's Skills Sub-group objectives, the background to the development of the strategy, its aims and its target groups. She explained that it was an overarching strategy which brought together various strategies including, amongst others, essential skills, the FE review and management and leadership. She went on to explain that the strategy was divided into four themes of: understanding the demand for skills; improving the skills levels of the workforce; improving the quality and relevance of education and training provision; and tackling the barriers to employment and employability. These themes were supported by a total of 16 projects and 4 underpinning strands.

2.2 At a regional level, a Skills Expert Group, which had replaced the NI Skills Taskforce, had been established and met for the first time on 27 February. From a local perspective skills would be considered by employer-led workforce development forums. Mrs Stevens explained that it would be important to have effective two-way communication between regional and local levels. At sectoral level, 25 Sectoral Skills Councils (SSCs) had been set up on a UK basis and were in the process of engaging with the employer base.

2.3 In response to a number of queries members were advised that:

- although a lot of information on labour market analysis was already available further information would be collected by the SSCs but this would be on a sectoral basis;

- although the SSCs had been established on a UK basis it was recognised that some NI specific analysis would be required – Mrs Stevens advised that DEL would be happy to bring the results of such analysis to EDF via the Skills Sub-group;

- in terms of the quality improvement strategy and teachers, DEL was working closely with the training inspectorate in DE;

- over the years there had been a significant focus on research into skills and the disadvantaged. The skills research projects detailed in paper 6 provided a snapshot of the research agenda at the present point and members were referred to previous labour market bulletins which would provide a fuller picture; and

- in relation to cross border input, particularly on lessons to be learnt, members were advised that Roger Fox was a member of the Expert Skills Group.

2.4 Members recognised that the strategy provided a comprehensive and coherent roadmap for the way forward but collaboration with other Departments and stakeholders such as EDF would be critical. The Skills Sub-group would be working closely with the Department to monitor progress.

3. INDUSTRIAL TASK FORCE REPORT / FISCAL INCENTIVES

3.1 The Industrial Task Force Report and a DFP paper on corporation tax were tabled as background to discussion.

3.2 The Chair explained that, although the potential significance of the issues reflected in the Industrial Task Force Report were widely recognised as being vitally important, there were obvious issues around corporation tax changes which were set out in DFP's paper. He did however, stress that the timing was right for consideration of such matters. In addition, the Secretary of State was keen to pursue north south co-operation where the benefits of such co-operation for NI would clear, so this was not a single issue debate.

3.3 Sir George Quigley, Chair of the Industrial Task Force outlined the origins of the Task Force and explained that it's recommendation revolved around taxation, intellectual capital and business education links. The NI economy was too dependent on the public sector with the result that GDP per head had remained in and around 80% of the UK average. Economic analysis indicated that small economies such as Northern Ireland need to target export driven growth particularly through high value added technology driven companies. Sir George referred members to the growth of the ROI economy which had a corporation tax rate of 12.5%, a factor which had encouraged companies to set up base in ROI. He explained that a competitive rate of corporation tax had been proven as an attraction for manufacturing, tradeable services and R&D. Sir George argued that minor tinkering was not enough: a significant policy initiative was required to deliver the necessary step-change in the economy and reduce NI's dependence on UK subvention.

3.4 Sir George advised that opportunities for profitable north south co-operation should be grasped and such opportunities would increase once investment flows had been freed up. Sir George said he had been impressed by the convergence of NI political parties' thinking on key economic issues. The political parties had an opportunity to influence and encourage the need to put the NI economy onto a new trajectory through lower corporation tax and the export driven model which was crucial to economic policy in NI.

3.5 Members welcomed the Task Force's report and agreed that a step change and removal of the NI economy's over dependence on the public sector was central. Members also welcomed the report's focus for interaction between the universities and industry.

3.6 Members acknowledged that a reduction of corporation tax was not a magic bullet: progress in a number of different areas would be necessary to take the economy forward. Other issues such as the responsiveness of economic policy, other fiscal flexibility, innovation, HE engagement with industry to challenge thinking within universities and economic solutions to civil strife would all be critical. It was agreed that consensus on the agenda, not least on fiscal policy, would increase NI's chances of success and that there may be opportunities ahead through the Comprehensive Spending Review (CSR), the north south economic co-operation and the political process to make progress.

3.7 Professor McCanny highlighted to members his concerns about development of innovation in NI. The majority of jobs being created involved back-room activities and the impact on innovation levels was therefore quite low. He also advised that there was an issue in terms of NI's skills base and that a more long-term strategic approach would be required.

3.8 Members agreed that a meeting should be arranged with the Minister to convey the thrust of the debate.

ACTION: Secretariat to arrange a meeting between the Vision Sub-group Chairs and the Minister.

4. DRAFT REGIONAL ECONOMIC STRATEGY

4.1 Bruce Robinson referred members to the draft of the regional economic strategy and stated that it would be helpful to take EDF views on the draft.

4.2 Members were disappointed that the draft strategy was not more forward looking. It was agreed that the strategy should set out the actions needed to make the necessary step-change in the NI economy and to do this stakeholders needed to be involved in its development.

4.3 Members considered that the document could build more on key existing strategies, such as the regional development strategy. It was suggested that the role of cities as a driver for economic development should also be reconsidered. There might also be merit in considering policy interventions which could be beneficial not only for NI but also in other regions of the UK.

4.4 DFP representatives referred to the relatively modest funding earmarked for the economic vision drivers of innovation and enterprise. Members were also advised that the link to the CSR had provided more time for completion of the strategy - now due by late 2006.

4.5 It was agreed that DFP and other Government Departments would work with the Vision Sub-group Chairs to develop the draft strategy to ensure that its focus was appropriate and that it would help deliver the economic vision. It was also agreed that a revised draft text would be produced for discussion at the next plenary meeting.

ACTION: DFP and other Government Departments to work with Vision Sub-group Chairs to develop the regional economic strategy and produce a revised version for discussion at the June plenary meeting.

5. SUB-GROUP REPORTS

Innovation Sub-group

5.1 David Dobbin, Chair of the Innovation Sub-group referred members to the Sub-group report which provided members with an update on the 9 issues which the Sub-group had identified as areas where action and / or support from the Forum might achieve tangible results. In relation to the Group's earlier concerns about proposals for the establishment of a regional science-industry council type body, Dr Dobbin advised members that further work had been done on the rationale and role and he indicated that the Group's report for the next plenary would be positive.

Enterprise Sub-group

5.2 As Lord Rana had to leave the meeting early due to another engagement, Seamus McAleavey summarised the progress made by the Enterprise Sub-group. In conclusion he highlighted the need for reconfiguration to allow the private sector to grow which would subsequently encourage enterprise.

Skills Sub-group

5.3 Michael Maguire referred members back to the presentation on the skills strategy, implementation of which would be a key focus of the Skills Sub-group. He explained that at a macro level some work would be required to identify skills needs and he suggested that dialogue between the Skills Expert Group and EDF might be appropriate. He also highlighted concerns about accepting 25 SSCs just because they were established on a UK basis. The Group was concerned that this was too many for a region the size of Northern Ireland and questioned if this was an effective use of resources. He went on to explain that there would be a role for EDF in raising the bar on vocational skills.

Infrastructure Sub-group

1.

5.4 Jim McCusker, Chair of the Infrastructure Sub-group advised members that the Sub-group had considered and agreed the recommendations to be given the highest priority and what action the Group needed to take to ensure delivery.

5.5 Mr McCusker advised that the Sub-group had agreed that its priorities would revolve around uptake of broadband, the level of competition among broadband providers in NI and early engagement of consultants with Departments in relation to economic appraisals. He concluded by advising that in view of recent developments there might also be an opportunity to consider some action in relation to energy costs.

6. RESEARCH – OVERVIEW OF DETI, DEL & OTHER NI DEPARTMENTS' RESEARCH FOR FUITURE YEARS

6.1 Members noted the research paper which provided an overall view on DETI, DEL and other Departments' research for future years. It was agreed that terms of reference for each project would be cleared via the relevant EDF Sub-group and that outcomes of research would be brought to the relevant Sub-group and / or plenary meetings when ready.

7. ANY OTHER BUSINESS

Future Agenda Items

7.1 It was agreed that the Reform Agenda would be included on the agenda for the June meeting. Members agreed that the Secretariat would continue to work with the Sub-group Chairs to agree future agendas.

Press Release

7.2 Members agreed a number of points for inclusion in a press release. It was agreed that the Secretariat would pull together a draft press release based on these points and forward the draft to the Sub-group Chairs for clearance.

ACTION: Secretariat to prepare a draft press release and forward to Sub-group Chairs for approval.

ANNEX 1

ECONOMIC DEVELOPMENT FORUM MEETING – 7 MARCH 2006

ATTENDEES

Wilfie Hamilton — Acting Chair

Attendee	Organisation
David Dobbin	CBI
Michael Maguire	IOD
Bob Barbour	CforC
Stephen Kingon	Invest NI
Lord Rana	NICCI
Richard Sterling	Londonderry Chamber of Commerce
John Gilliland	Ulster Farmers' Union
Tom Gillen	NIC/ICTU
Jim McCusker	NIC/ICTU
Bernie Hannigan	Higher Education
Raymond Mullan	Further Education
Seamus McAleavey	NICVA
Anne O'Reilly	NICVA
Wilfred Mitchell	FSB
Peter McNaney	SOLACE
George Dawson	DUP
Mitchell McLaughlin	Sinn Fein
Roy Beggs	UUP
Sean Farren	SDLP
Sir George Quigley	Industrial Task Force
John McCanny	Industrial Task Force
Aideen McGinley	DEL
Heather Stevens	DEL (for Skills Strategy item only)
Robson Davison	DE
Doreen Brown	DRD
Bruce Robinson	DFP
Michael Brennan	DFP
Graeme Hutchinson	DETI
Helen McConkey	DETI

Freight Transport Association

Alan Patterson
Room 414
Parliament Buildings
Stormont
BT4 3XX

3 August 2006.

Economic Challenges Facing Northern Ireland

Please find our response to the issues raised in your letter dated 28th July.

The response represents the views of the Freight Transport Association.

The Freight Transport Association represents 12,500 members operating over 200,000 goods vehicles – almost half the UK fleet. FTA members are involved in multi-modal operations, working within the road, rail, sea and air sectors. There are approximately 300 FTA members in Northern Ireland.

1. **Major impediments to the development of the economy in Northern Ireland**

Trade Routes

The result of many years of underinvestment in the provinces transport infrastructure has resulted in adverse consequences for the complete supply chain and the economy.

In May 2004 the FTA launched their Trade Routes campaign at Parliament Buildings, Stormont. The five routes nominated as requiring immediate improvements were described as causing unreliable and unpredictable journey times. All except four of these are listed in the Roads Service preparation pool however the A8 Ballynure to Larne single carriageway is not. The A8 is listed as part of the Trans European Network and is a critical factor for the sustainability of Larne Port and its links through Dumfries and Galloway to supply chain links.

The schemes listed in the Roads Service preparation pool plus those announced recently have long lead times and will not come to fruition until many years ahead. This is too late and is perceived as a major threat to the economy of the province.

Congestion on our roads network creates additional costs, reduces efficiency and competitiveness of the supply chain.

Eddington Study

The peripherality of Northern Ireland means that we need world class transport links to support inward investment and links with the GB, European and global markets.

When we met with the Eddington study team in December 2005 we made these points, however their focus is looking beyond 2015 and our needs are much more urgent than that.

RPA

The Review of Public Administration reducing councils from 26 to 7 is designed to improve efficiencies and therefore reduce costs. However we strongly believe that to transfer the responsibility for 95% of the roads network to the new super councils is not a good plan and the decision should be reversed. To transfer the responsibility will mean considerable additional cost implications through restructuring when the main objective is surely to reduce costs. The present Roads Service model is envied by many in GB and ROI and it makes sense to have one budget for the NI roads network with centralised control.

2. **Incentives to promote investment.**

Ports

The current Ports Policy Review must conclude that more freedom is afforded for our three trust ports to develop their assets and facilities in order to enable them to remain competitive and protect tonnage throughput. The road links to and from ports need to be improved and adequately maintained. Again too much Government involvement and restriction will continue to impede sustainability and potentially deter additional investment in the province.

Distance is no longer a barrier to trade which is why so much European production has moved to China and India. Competitive transport produces results for operator, manufacturer and consumer alike in reduced costs, greater efficiency, reduced energy and fuel consumption and higher performance standards.

Taxation & Regulation

The problems created by significantly higher levels of business taxation in Northern Ireland compared to the ROI increase the likelihood of inward investment going South rather than North. Therefore serious consideration should be given to address this issue in order to make NI a more attractive proposition.

Transport costs have been significantly increased by a recent spate of EU legislation – working time directive, digital tachographs, new driver's hour's regulations and soon the driver training directive. One third of the road transport cost is fuel and the UK Treasury taxation is one of the highest in Europe. The ROI fuel tax is 20% less than the UK rate and this creates many problems. The harmonisation of fuel duty would help to keep operational costs down and contribute towards making NI an attractive place to do business.

The estimated annual loss of revenue to the UK Treasury through legitimate sourcing of motor fuels in the ROI plus the illegal activities of smuggling and fuel laundering is put at almost £0.5bn per annum.

Additionally the proper control of licensing for fuel suppliers and retailers in the province has been highlighted as a weakness which needs to be urgently addressed.

Both these points referred to above were raised by the FTA in the House of Commons in front of the NI Affairs Committee investigation into Organised Crime in Northern Ireland.

Details of these points are contained in the Third Report of Session 2005-2006 Volume 1, page 60 (193-197) and page 64 (211-212)

The same report contains a recommendation that the licensing regime for the road haulage industry be brought forward (page 78 para. 54). In recent discussions with DOE Roads Safety and Policy branch the FTA has learnt that no movement is expected until 2008/09 and this further demonstrates the lack of will to take positive action. This delay will be detrimental to efforts to display to potential investors that the province has been fully restored to normality with proper regulations and law enforcement.

3. **Other matters that may contribute to economic regeneration.**

The huge display of investor confidence in the regeneration of Belfast City and other areas of the province following the peace dividend must be accompanied with immediate and parallel spending on the roads infrastructure. Additional points are contained in the attached copy of our response to the NI Budget consultation dated 5.12.05

Freight traffic is expected to grow over the next ten years based on economic forecasts and predictions of leading economists and this demonstrates the need for more rapid and sustained investment in the infrastructure in order to provide for the expected demands for capacity that will be made by the country's continued reliance on imported goods over this period.

Supply chain collaboration

Retailing is expected to consolidate into larger multi-national entities with huge purchasing power and economies of scale and smaller businesses will occupy niche positions in the market and generate additional flows between national centres of production and distribution.

In this respect moves by companies to collaborate within the supply chain must be encouraged in order to improve efficiencies and reduce costs. Some work has already been undertaken by companies in conjunction with InterTrade Ireland.

Consumers are spending on services such as tourism, leisure activities and hospitality and this trend is expected to continue. Therefore the efficient movement of people is critical and whichever mode of transport is chosen will need to be attractive, reliable, affordable and not contribute significantly to congestion and pollution.

Operator Licensing

The transport industry in Northern Ireland requires better regulation. It is unacceptable for NI as part of the UK to have different regulations and enforcement levels compared to GB. For many years the FTA have campaigned to have the same rules applied in NI as in GB, but these efforts have so far been in vain.

The Operator licensing system which has been in place for many years in GB applies to both the 'Hire and Reward' and 'Own Account' sectors yet here only the former is affected. The effects of this anomaly have contributed to significant levels of organised crime including the involvement of former paramilitaries and this is a major disincentive to inward investment. Political stability and evidence of normal functioning polity is crucial for business confidence and without this the development of NI will remain stunted with all implications for employment, growth and prosperity etc.

The proper licensing, regulation and enforcement of all commercial vehicle operators ensures fair competition as well as helping to improve safety standards whilst reducing collisions. A Traffic Commissioner should be appointed as soon as possible and any necessary legislative changes applied as a matter of urgency to bring us into line with GB.

Freight Strategy

Northern Ireland needs a Freight Strategy to encompass the views of those bodies representing the complete supply chain. Such a group should meet together on a regular basis with DRD Roads Service, DETI, Ports group and Planning Service to discuss current needs and future plans.

The FTA have been appointed by various English regions to assist in the development of Freight Strategies and here we have been in discussion with the University of Ulster to commission a study relating to current and future transport needs.

A few years ago we helped to develop a Freight Quality Partnership for Belfast City Council. This involved retailers, the Police, DRD Transportation Unit and FTA members.

We hope that this contribution will be beneficial and we look forward to assisting with any further developments.

Yours sincerely

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Response to Consultation Document

*From the **Freight Transport Association** 5th December 2005*

Consultation Paper on Draft Priorities and Budget for Northern Ireland 2005

The members of the Freight Transport Association are gravely concerned with the proposals contained in the Draft Consultation Paper and wish their views to be taken into consideration.

The FTA has worked extensively with the Department of Regional Development (DRD) in Northern Ireland for many years and in particular with relation to both the Regional Transport Strategy (RTS) 2002-2012 and the Regional Strategic Transport Network Plan (RSTN) to 2015.

It has been stated many times that the road network in Northern Ireland is such a valuable national asset as it carries everything that is manufactured, produced, imported and exported. As there are no other means of freight transport it is vital to the economic growth of the country that the maintenance of the surfaces and structures of the road network are preserved. It was reported in the RSTN that due to the high volume of heavy traffic and subsequent structural assessments that a significantly higher level of expenditure was required. The report also noted that historically the funding made available for structural maintenance had fallen short of that required and that this had resulted in a marked deterioration in the overall condition of the network. The budget allocation for roads maintenance was then increased in recognition of this situation for the period 2002-2012 within the RTS.

This was a positive step in approaching the required levels of funding and the benefits of the investment would be spread across the roads network throughout Northern Ireland.

The Northern Ireland Road Safety Strategy 2002-2012

Section 5. SAFER ROADS INFRASTRUCTURE declares its strategic objective –

“To ensure that safety continues to be a primary objective in designing, building, operating and maintaining roads in Northern Ireland”

Section 5.2 declares “Good road engineering reduces the risk of collisions” and

“Emphasis is on making best use of the existing road network and giving priority to treating those routes”.

Amongst the immediate action measures in this strategy document (numbered 128,133,134) the DRD “will pursue its key objective of giving priority to maintenance of the road network to retain its safety, effectiveness and reliability”.

Regrettably Northern Ireland has a poorer overall road safety record than Great Britain and since the early 1990s on average the number of people killed or seriously injured has been approximately 25% higher than GB. Furthermore Northern Ireland’s record of total casualties is worse, with a rate per 100,000 population about 35% higher than GB.

In announcing a consultation during October this year on new road safety measures, Environment Minister Lord Jeff Rooker referred to the NI Road Safety Strategy 2002 and the commitment to reduce the number of people killed or seriously injured on our roads by 33% and the number of children killed or seriously injured by 50%, by 2012.

It seems to be a contradiction when on the one hand Lord Rooker proposes new road safety measures and a few weeks later the Governments Consultation Paper on the Draft Priorities and Budget for Northern Ireland seeks to impose severe reductions in planned expenditure.

We understand that at the commencement of the RTS 2002-2012 there was already a £140m backlog in road maintenance spending and a commitment was made to address this situation. If the Government attempts to reduce the £780m as identified for roads maintenance in the ten year RTS it is obvious that a further deterioration of the roads network will result. This situation will impede the Governments aspiration to reduce the high collision levels and improve the poor road safety record in Northern Ireland, it will cause increases to vehicle maintenance and repair costs, lead to higher insurance claims and potentially damage the economy of the country.

The admirable improvements to the roads network in the Republic of Ireland in recent times have strengthened their ability to grow their economy and attract considerable inward investment. If the roads network in Northern Ireland is neglected and allowed to continually deteriorate this will do untold economic damage to our country – a situation from which it would be most difficult to recover.

The movement of freight throughout the country needs to be both reliable and predictable as Northern Ireland already has the disadvantage of generally higher costs compared to other regions of the UK, due to its peripheral position. The FTA identified the importance of the Trade Routes and the maintenance of strong transportation links in its campaign at Parliament Buildings, Stormont last year and we must not allow this valuable network asset to be further devalued.

The huge display of investor confidence in the regeneration of Belfast City and other areas of the province following the Peace Process must be accompanied by parallel spending on the roads infrastructure. The National GB term policy is to regenerate the regions and provinces and for the Government to now make severe cuts in the planned roads maintenance budget would be inconsistent with the overall economic strategy – which has been to look for inward investment.

There are major FTA members who have made considerable investments because they have been given the confidence by Government to invest in Northern Ireland.

Working to the ratio of £1 spent by Government attracting £5 spent by industry and taking the present Roads Maintenance budget of £780m (RTS 2002-2012) the expected investment from industry will therefore be just under £5bn for the ten year period.

Allowing for inflation and significant increases in raw materials associated with roads maintenance the budgeted spend of £780m will now be nearer to £900m therefore to cut the Roads Maintenance budget would therefore see a comparative cut in inward investment. We now need more money for this vital maintenance work – not less.

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EU directives affecting Freight Transport and their impact on our ability to compete.

It has been said many times before that companies operating within Ireland share a competitive disadvantage compared to similar companies in other EU countries.

Simply by running a business in Ireland and trading locally or within the Global Marketplace generally means that companies experience higher freight transport costs than many other EU states. The geographic location of Ireland dictates higher than usual levels of inter-modal transport which presents a constant challenge for companies to maximise operational efficiencies.

Industry must constantly review production strategy and other activity timings in relation to customer and end user requirements taking into consideration all of the integral parts of supply chain management.

In recent years there have been several EU directives affecting freight transport. These have required member states to comply and make significant changes to their working practices.

The key competitive pressures on the freight transport industry and supply chain best practices to counter increased operational costs are as follows:

Road Transport Directive – Working Time

Widely acknowledged as one of the most expensive and wide ranging pieces of legislation ever to affect distribution operators, the directive will reduce the working week for lorry drivers to an average of 48 hours – bringing about an estimated 10 per cent decrease in their productivity and generating additional estimated costs of £1 billion for UK businesses. The right of an individual to 'opt-out' from these rules has ceased and drivers subject to tachograph rules as well as any non-driving crew carried in the vehicle have had to comply with the new regulations from 16th June 2005 (4th April 2005 in Gt. Britain).

The FTA negotiated a number of concessions with the Department for Transport, on behalf of the industry, the main one, known as a 'Period of Availability' (POA) refers to delay times encountered during each working day.

Waiting time at Regional Distribution Centres (RDC's) is a regular feature and drivers with an allocated slot are very often delayed for considerable periods of time. Whilst drivers are entitled to record such POA's as delays not counting towards their average 48 hour working week the overall result is gross inefficiency of the supply chain mechanism. There are huge costs involved when collections and deliveries do not go according to plan and there is enormous scope for everyone involved in the supply chain, especially RDC's to turn traffic around more efficiently than is presently the case.

The FTA/NAI Fuller Peiser Working Time Impact Study provides quarterly reports tracking the degree to which industry is affected by the reduced working week and its impact on property. This study will assess how businesses need to plan to cope with sourcing additional drivers and vehicles, as well as the most inevitable requirement to rethink and in some cases relocate their warehouses and distribution operations.

Driver Shortages

At least a third of freight transport companies are understood to have difficulty recruiting drivers. With the accession of a number of Eastern European states to the EU, the opportunities for the employment of drivers from these states have become so much easier. Many operators have employed drivers from Poland and other Eastern European states in an attempt to fill the gaps.

It is essential that an attractive career path in transport and logistics is developed and well presented to educational establishments as soon as possible. In this event Skills for Logistics have been in consultation with the Department for Education and Learning to collectively produce a solution. Whilst government funding has been made available in GB for such schemes to date no funds have been made available to Northern Ireland.

Double Handling

The reduction or removal of double handling not only reduces potential stock damage but also helps to ensure deliveries are made on time.

The following recommendations for Best Practice should be considered by industry and local authorities:

- Ensuring that vehicles, especially the larger and more intrusive variety, are used as efficiently as possible by maximising full load running and minimising empty running: where possible utilising otherwise empty return journeys for packaging and waste material collection, customer/supplier collections and shared use of resources.
- Using modern communications linking driver, base and customers to ensure optimum arrival time for deliveries. Minimising queuing, disruption and intrusion at delivery points by pre-notifying delivery arrival time, or variations from those previously advised.
- Promoting effective management of service areas at delivery points for example by controlling unauthorised parking, to facilitate access and manoeuvring for delivery vehicles and to minimise delivery time.
- Using modern IT systems to optimise vehicle routeing and scheduling by minimising empty mileage and maximising loaded route miles.
- Paying particular attention to local vehicle routeing. Ensuring drivers avoid unsuitable rat-runs by giving clear instructions, with maps where appropriate, and liaising with the local authority or Roads Service to establish preferred routes.

The FTA representing the majority of freight transport businesses in Northern Ireland established a Freight Quality Partnership with Belfast City Council and the Department of Regional Development. The partnership represents a wide range of interests in the freight and transport industry including local and central government agencies, trade, consumer and environmental associations, the police, transport companies and businesses.

The group found that localised problems in the movement and delivery of goods could be addressed, to produce economic and environmental benefits.

Some measures were identified for consideration:

- Improved signing and information to help drivers use the best routes to and from their destination
- Examine the potential for out of hours deliveries, with particular reference to ferry services.
- Improved enforcement of parking restrictions to protect kerbside access for deliveries.
- Consideration of the provision of no-car lanes to enable buses, emergency service and large goods vehicles over 7.5t more freedom of movement.

The Freight Transport Association gave oral evidence to the House Of Commons Northern Ireland Select Affairs Committee at Westminster on Wednesday 1st February 2006.

Here are some of the relevant points made which describe how criminality affects the legitimate Freight Transport industry in Northern Ireland.

- What is the impact on the transport industry
  Our members are victims of illegal trade. The current fuel duty differential encourages illegal trade and consequently distorts the market.
  Diesel fuel represents at least one third of overall transport costs and unfair competition involving the use of illegal fuel has an immediate damaging effect on legitimate transport operators.
  The traditional NI based oil companies who used to provide bulk diesel supplies to the transport industry have lost this business significantly.
  These supplies were quality assured, whereas much of the fuel purchased now may be of uncertain quality.

- How does it affect fair competition in the industry
  It places legitimate transport operators at a disadvantage if their rates are undercut by a competitor using illegal fuel.
  Those illegal operators who fit false tanks to their vehicles and use other illegal methods threaten to put legitimate operators out of business.
  There are currently no penalties severe enough to strike out illegal operators.
  Enforcement bodies have limited powers and are generally unable to permanently shut down these operators.

- Are Government doing enough to combat organised crime
  The Government must now act to introduce a proper Operator licensing system throughout the transport industry in NI.
  For over 30 years the Transport Industry in GB has been regulated under the Operator Licensing regulations, yet in NI there are no powerful controls similar to those in place in GB.
  The professional road hauliers Hire &Reward sector are regulated in NI under the Road Freight Licensing system, however the remainder of road transport operations are not subject to the same regulation.
  Once full regulation applies to all transport operators in NI there will be an immediate improvement in the level of compliance.
  These regulations when applied will enable the authorities to deal with criminality as well as the contravention of the Operator licensing system. With the increased powers of these regulations applied to mirror those in force in GB those found guilty will face a more robust legal system than exists presently in NI.
  The GB system provides roadside checks for illegal operators including foreign vehicles.
  The recent Burns report which focused on fuel taxes covered the issue of enforcement of foreign vehicles in terms of their compliance with drivers hours regulations and vehicle safety standards. Enforcement officers in GB will soon have increased powers to deal with illegal foreign operators.

Therefore the introduction of the GB 'O' licensing system into NI will assist enforcement against illegal and non compliant operators. A legal and properly regulated industry will also help to drive out criminality.

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Mivan

Mr Alan Patterson
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9 August 2006

Alan.Patterson@niassembly.gov.uk

Dear Mr Patterson

Thank you for the opportunity to provide a submission in respect of the Preparation for Government Committee's consideration of the economic challenges facing Northern Ireland.

I have endeavoured to deal with the issued under the three headings you have outlined as comprising the working group's terms of reference

1. To identify the major impediments to the development of the economy in Northern Ireland;

2. To consider fiscal incentives that may promote foreign direct investment and indigenous investment; and

3. To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.

Before addressing the specific issued, I must confess some concern at the haste with which this exercise is being undertaken. As I understand it, when the Chancellor visited Belfast on 19 June, he invited the Business Alliance and elected politicians to make a submission in respect of the challenges facing the economy and specifically the role that fiscal incentives and an economic package might play in stimulating economic regeneration in Northern Ireland.

As the Secretary of State issued his direction on 3 July and your committee requires responses no later than 9 August, I find it difficult to accept how these three issues can possibly be resolved within such an impossibly short period of time.

I recall that the Assembly's Economic Development Committee spent over 12 months addressing the outputs of *Strategy 2010* and the time allocated for this exercise is less than half the period allocated to consideration of *Economic Vision*, DETI's current economic strategy. I would have grave reservations that the appropriate research – let alone robust conclusions that will be convincing to Treasury – can be accommodated in the timescale you have allocated.

I note that your letter did not define any tangible outputs that might serve to define the nature of the economy that would exist after the impediments had been overcome and economic regeneration had been successfully achieved. I find that a weakness and recall that the Assembly Economic Development Committee made the same comment regarding *Strategy 2010*, where it concluded that any new economic regeneration strategy must have tangible and quantifiable outputs that could be directly compared, over time, with a policy neutral (no change) model.

Consequently, and for the purpose of moving forward I must assume that your committee is setting as a strategic goal something similar to that of the *Economic Vision*, which aspires to create: *"a high value-added, highly skilled, innovative and enterprising economy which enables us to compete globally leading to greater wealth-creation and better employment opportunities for all"*

Assuming the foregoing my comments on your terms of reference in order are:

Identify the major impediments to the development of the economy in Northern Ireland.

Mivan was recently described by a journalist as an international company that just happened to be based in Northern Ireland and I would accept that statement as broadly correct. However, our continued growth and international competitiveness has been sustained by continued investment in R&D to develop new processes and products and the innovation necessary to exploit this R&D. This innovation has been underpinned by strong marketing and all our activities rely on process excellence, which can only come from high levels of educational attainment and skills and an infrastructure that will support the needs of a modern manufacturing and service economy.

Historically, Mivan has enjoyed continued support from Invest NI and DEL in respect of our determination to remain internationally competitive. However, we have experienced frequent conflicts between the risk-averse strategies manifested by DETI and the ability of Invest NI and DEL to deliver appropriate programmes. Mivan remains fully supportive of the commitment of Invest NI to help deliver economic regeneration but believe that until a single economic development body becomes responsible for strategic planning and practical delivery, Northern Ireland will remain disadvantaged.

Northern Ireland – despite its industrial heritage - is no longer an enterprising economy. It has a particularly low level of business formation and growth, being, I believe second-lowest in both areas when compared with the 12 UK sub-regions. Of some 53,000 VAT-registered businesses, over 40 per cent have no employees, while around 89 per cent employ fewer than 10 people, while only 300, a mere 0.6 per cent, employ more than 300.

Mivan finds it difficult to recruit and retain workers with the necessary vocational and work-readiness skills to deliver on client expectations. Not only are excellent vocational skills essential for the modern worker, without the work-readiness skills of communications, literacy and numeracy, team-working and technology, vocational skills cannot be fully capitalised.

Finally, a competitive infrastructure lies at the heart of overall regional competitiveness. While ISNI and its £14bn programme is welcome, I understand that the programme is not fully funded and in the meantime, Northern Ireland is falling rapidly behind the Republic in terms of communications and infrastructure.

In summary therefore, Mivan takes the view that the key impediments to economic development have already been correctly defined in the *Economic Vision*, which identifies four economic 'drivers' that are necessary to overcome the structural weaknesses of the Northern Ireland economy. These are:

- Increase investment in R&D and promote innovation/creativity;
- Promote and encourage enterprise;
- Ensure our people have the right skills for future employment opportunities; and
- Ensure we have a modern infrastructure in place to support business.
- However, this far, we see little evidence of strategies and programmes that are making any real impact in alleviating these weaknesses.

Consider fiscal incentives that may promote foreign direct investment and indigenous investment.

I am aware that there has been considerable debate relating to fiscal incentives and specifically to harmonisation of corporation tax with the Republic of Ireland. However, my perception is that this debate is at a superficial level and it would benefit from rigorous and robust independent economic research. I have not seen any authoritative analysis of the RoI economy that places low corporation tax as the key driver of investment, growth and profitability with both FDI and indigenous business.

Indeed, there is some evidence that low corporation tax is of limited value in stimulating an indigenous, small-firms economy (such as Northern Ireland's): *"…low corporation tax rates are relevant where businesses are already profitable, but not… relevant to the growth of emerging companies…"*[1]

In terms of FDI, there is little doubt that Ireland's tax regime has been attractive to overseas investment, but it is important not to oversimplify this situation: *"…during the 1980's the period of the boom in US FDI, there were no changes in the Irish tax system, indeed the corporation tax rate actually increased in the 1980s, so it is not possible to invoke it as an explanation for the timing of the boom."*[2]

At least one commentator suggests that low corporation tax has stimulated investment from FDI sectors that are most suited to transfer pricing: *"…the industrial sectors that have boomed in Ireland are …particularly well able to avail of transfer pricing in minimising their global tax liabilities… they are 'patent intensive' rather than capital or technology intensive… [and] … four sectors exhibit characteristics that can only be explained as a response to the global tax planning incentives provided by the low Irish CT rate: cola concentrates, software reproduction, organic base chemicals and computers."*[3]

Some international literature goes further, suggesting that: *"…[there are] little grounds to support tax cuts and incentives – especially where they occur at the expense of public investment – as the best means to expand employment and spur growth… any jobs that might*

1 *Clemson Centre for International Trade. (2005). The Transformation of the Irish Economy – the Role of Public Policy:*

2 *Walsh. Taxation and Foreign Direct Investment in Ireland.*

3 *Walsh. Taxation and Foreign Direct Investment in Ireland.*

be gained by cutting taxes can be more than offset by the jobs lost as a result of cuts in public services.'[4]

Consequently Mivan is reluctant to offer any categorical views on the effectiveness of fiscal incentives as a driver of both FDI and indigenous investment. Nevertheless, as a general principle Mivan believes that the greatest fiscal incentives are those that encourage and reward investment in the key drivers of growth – R&D and innovation, marketing and training. We believe that offering substantial tax incentives or tax credits – that are simple and transparent - on eligible expenditure, investment from both FDI and indigenous industry will be encouraged and international competitiveness advanced.

I believe that similar proposals were previously published by a Northern Ireland tax reform lobby known as the Milford Group – and that these were independently validated by the Ulster Society of the Institute of Chartered Accountants and reviewed by both the Executive and Treasury. It would be important to take the view of this group, which was represented by John King and Stephen Kingon.

Consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.

During 2005, the Business Alliance and the five main political parties agreed on an assessment of the Northern Ireland economy and the need for a peace dividend. I understand this was widely circulated within the British and Irish governments and formed the basis of discussions at Leeds Castle. Along with many other business people I endorsed this and found the Business Alliance presentation to the Assembly on 16 May 2006 perfectly in line with my own views and I endorse their comments.

It is impossible to comment on the size, purpose and disposition of a peace dividend within the terms of reference I have been invited to comment upon.

I have two other comments that may be germane. The first relates to the Review of Public Administration. It is absurd to exclude the 11 Departments from any modernisation programme. In RoI IDA Ireland has had responsibility for economic development strategy and delivery since 1949. In Northern Ireland, economic development policy and programming alone involves seven departments, with Invest NI having no strategic role, merely operating as a delivery agency. Surely Northern Ireland today doesn't need almost twice as many government departments as we did a decade ago.

Finally, there is considerable discussion relating to the privatisation of local assets. It would be damaging in the extreme to permit assets to be removed from public ownership within Northern Ireland and for the beneficial ownership to be transferred to investors and speculators outside Northern Ireland. It is essential that government takes steps to prevent this.

Thank you again for the opportunity to make a submission and I hope this is of some value. Please do not hesitate to contact me if you require any elaboration.

Yours sincerely
IVAN McCABREY, Chief Executive

4 *Economic Policy Institute. (2005). Rethinking Growth Strategies – How State and Local Taxes and Services Affect Economic Development*

NI Manufacturing Focus Group

16 August 2006

Mr Alan Patterson
Room 414,
Parliament Buildings,
Stormont, BT4 3XX

Dear Mr Patterson

Assembly's Preparation for Government Committee - sub-group to consider the economic challenges facing Northern Ireland.

I refer to the establishment of the above and the sub-group's invitation to the Northern Ireland Manufacturing Focus Group to indicate its views.

Firstly may I say how much I welcome the creation of the sub-group and that its focus within its terms of reference is on action.

As requested I have structured our response against the three strands of the sub-group's work as provided within its terms of reference.

1. **To identify the major impediments to the development of the economy in Northern Ireland.**

Peripherality
The prime impediment is peripherality and the symptoms of this are:

- Limited local market
- High transport costs
- High energy costs
- Limited skills base
- Limited supply chain
- Absence of sectors featuring mass scale manufactures.

These cannot be 'wished away' by any strategy, but they can be mitigated and other incentives – outlined here under (2) and (3) - can be introduced to improve the relative position of Northern Ireland as a manufacturing base.

Republic of Ireland and implications for Northern Ireland
The considerable economic development seen in the Republic of Ireland is welcomed as growing a market for exports from Northern Ireland. This growth is strongly aided by the Republic's advantageous corporation tax treatment, its unique position as the sole native

English language country in 'euroland', and the associated low interest rates. All this makes it an exceptionally attractive country for inward investment.

Northern Ireland therefore has the difficulty of peripherality compounded by the fact that its immediate neighbour, sharing a land border, is probably the most competitive location for fully mobile inward investment in Europe.

In these circumstances Northern Ireland cannot merely be competitive, but must be hyper competitive, if it is to achieve any investment. This in turn has focused attention on the what can be added to the 'Northern Ireland offer' to make it more attractive. The focus here has been on Selective Financial Assistance, providing grant against a firm's arrival, perhaps linked to achieving a jobs target. This has the benefit of flexibility and the appearance of targeting. However it has a weakness in that it is necessarily somewhat bureaucratic and hence slow and lacking in transparency. This has prevented the incentives on offer being widely understood and hence sought after. Where the concept of the offer is understood it carries a negative, ie that the implied disadvantages of locating in Northern Ireland must be subsidised in some way.

Worse, the thrust of this support is aimed at the establishment of a firm rather than the ongoing sustainability of an operation. As a result the majority of inward investments show an early peak in their employment, often less than that sought, before a decline. Bought expensively, the resulting job-years from inward investment are limited, which suggests poor value for money.

Conclusion on inward investment policy

The current inward investment policy of competing with the Republic for investment projects on the basis of upfront support is thus costly and largely counter-productive. By creating the impression of a subsidy hungry sector it also damages the confidence of the sector and of those who might work in it, deterring young people with talent and skills from pursuing manufacturing.

De-rating

De-rating, which has been scrapped, had the considerable advantages of being readily understandable and rewarding those who continued in operation. The NIMFG believes that this incentive was poorly understood by Government and that its current phasing out is based on a fundamental misunderstanding of its role and value.

The Government case, within the consultation and the Regulatory Impact Assessment signed by the Minister, was based on a report carried out by DTZ Pieda which extrapolated from a small survey. Government's own figures (DETI) suggest that the DTZ Pieda report exaggerated profits in manufacturing in Northern Ireland by around £1,000 million per year. NIMFG believe that a report as flawed as this is not an acceptable basis on which to determine the future of an industry, and the 100,000 households that rely on it for a job. Your committee will be aware that a working group has just been established between NIMFG and the Department of Finance to look at this issue and the optimal level of Rates on manufacturing.

NIMFG would welcome the sub-group backing its position which is that manufacturing should be treated in the same way as other sectors, such as the equine industry, mining and quarrying etc, which are able to benefit from rate relief in recognition of the benefits they bring to Northern Ireland or the competitive pressures they face.

NIMFG believe that as well as aiding local industry, young and old, high tech and traditional, rating relief will aid inward investment.

Other impediments

Rating Relief is a priority for the NIMFG as this is an issue which can force otherwise successful companies to invest elsewhere, suspend investment or indeed close.

Given the shortness of time it has not been possible to fully canvass the membership on other economic aspects and reach an agreed position. However NIMFG will be keen to see action on energy costs to industry, support for 'green' technologies, a more dynamic planning service, as well as better co-ordination between training and education provision.

In short NIMFG asserts its confidence in manufacturing firms in Northern Ireland being world-class, and that manufacturing has a bright future. The difficulties it wishes to see addressed are those that lie outside manufacturing: Government policies and the practice thereof, energy markets, transport and infrastructural deficiencies, and an education system which fails to provide the basis skills at one end or the global ambition at the other.

2. **To consider fiscal incentives that may promote foreign direct investment and indigenous investment.**

The key fiscal incentive needed is relief from full Rates, as described above.

The investment process of most large firms is highly rational, and thus will only take place where it is sensible to do so. Where investment returns appear low or uncertain the investment will not take place, unless there is considerable grant aid to the investment, sufficient to overturn the analysis.

NIMFG believes that while fiscal incentives are necessary the focus of policy should be on making Northern Ireland a better place in which to be based. There is a close analogy here with recent changes in tourism theory. While for decades the emphasis was on attracting visitors – with the noted development of 'attractions' – this has shifted recently towards making the area better for residents. In turn this 'high quality of life' has proved to be a magnet for visitors. Making Northern Ireland a profitable place in which to do business will attract all the firms we need.

The key task for inward investment here is a rapprochement with the corresponding mechanisms within the Republic, so that they complement each other. In this way more activity can be attracted to the island of Ireland, benefiting both economies. Further, this should be achievable at a lower cost, freeing up resources for support that encourages further growth once the companies are established.

3. **To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.**

NIMFG believe that prosperity is key to addressing social ills, and that consequently effective economic development is more likely to bring about sustained social improvement than softer interventions.

However NIMFG also believe that economic development cannot be fully effective whilst social problems exist and that consequently the addressing of these is fundamental to the future of Northern Ireland and its industry.

Consequently NIMFG would direct any economic package in a balanced way, delivering real gains to industry that brings about real jobs, whilst enhancing access by all to that employment.

Close

May I thank you again for this opportunity to submit to the sub-group and express the hope that its work yields dividends for the Northern Ireland economy.

Yours sincerely

Basil McCrea

Northbrook Technologies

Response to Sub-Group on the Economic Challenges facing Northern Ireland

Major Impediments to the Development of Northern Ireland's Economy

There are numerous impediments to the development of Northern Ireland's economy; the points listed below are some that come to mind. However we have expanded on certain points which in the experience of our company we consider to be major impediments.

The more general comments would be as follows:

- The continuing legacy of "the troubles", particularly as it plays out as sectarianism.
- A growing trend of racialism.
- Lack of visionary political leadership.
- Lack of serious entrepreneurial activity.
- Burden of "over-Government" and dependence of the economy on Public Sector spending.
- The high number of "economically inactive people".

Specifically as it relates to our business experience:

Skills & Education

For Northern Ireland to fully deliver on it's aspiration of being a knowledge-based economy it is important that the appropriate investment is made into the skills base. There is a chronic shortage of IT skills within Northern Ireland, to the extent that it frustrates our ability to grow at the rate we would like. Furthermore, it seriously impacts our ability to attract similar FDI to our sector. We are firmly of the opinion that Northern Ireland should adopt the proactive strategy of developing large quantities of Graduates with the appropriate skills which will attract FDI, rather that reacting to serendipitous FDI in this sector with remedial skills training. Undoubtedly we have, and will continue to miss out on major opportunities for FDI and indigenous growth.

Competitiveness

The competition in the knowledge-based economy is predominantly coming from the Asian economies. It is imperative that we continue to be in a position to compete with these economies. Specifically we to have an economy that can deliver sustainable cost-base, particularly in wage levels and associated expenses.

Communications

We need to continue to invest in our telecommunications infrastructure, whilst we accept that substantial investment has already been made in this area we cannot afford not to continue to make these investments to ensure that we a “State of the Art” infrastructure.

Economic Development Agency

A more straightforward (and less bureaucratic) approach should be taken to economic incentives offered to growing businesses in Northern Ireland. The same rules should apply to growing indigenous businesses as apply to FDI.

Planning Service

Chief Executive's Office

Millennium House
17 - 25 Great Victoria Street
Belfast
BT2 7BN

Mr Jim Wells MLA
Northern Ireland Assembly
Room 414
Parliament Buildings
Stormont
BELFAST
BT4 3XX

Date: 7 August 2006

Dear Jim:

Thank you for your letter of 27 July.

I enclose, as requested, a paper from the Planning Service which I hope the Sub-Committee will find helpful. If the Committee would like any further material to help its deliberations, please let us know.

Yours sincerely,

David Ferguson

DAVID FERGUSON
Chief Executive

Enc

Tel: (028) 9041 6700 Fax: (028) 9041 6979
Email: planning.servicehq@nics.gov.uk
Web: www.doeni.gov.uk/planning/index.htm

Northern Ireland Assembly Preparation for Government Committee: Sub-group on The Economic Challenges Facing Northern Ireland

Planning Service Response

Introduction

1. This short paper has been produced in response to the invitation from the Sub-Group to submit views in writing on the following terms of reference:

- To identify the major impediments to the development of the economy in Northern Ireland.
- To consider fiscal incentives that may promote foreign direct investment and indigenous investment.
- To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.

2. We feel that other organisations and individuals are more appropriately placed to comment on the challenges posed in the second and third elements of the terms of reference. Our response is therefore confined to the first element.

The Planning Service's Role

3. In simple terms, any developing economy has a physical consequence in the form of buildings and so on, on the ground. In this regard, Planning Service has a pivotal role to play, for the vast majority of such development will require planning permission. If it is to be properly facilitated, the planning system which the Service manages needs to be as efficient as possible.

4. In managing the system and facilitating development, however, Planning Service also has a responsibility to ensure that it is sustainable and that it reflects society's concern to protect the environment. This is reflected in the Agency's aim…*'To improve the quality of life of the people of Northern Ireland by planning and managing development in ways which are sustainable and which contribute to creating a better environment'*.

5. There is an inherent tension in the way in which this aim is given practical expression. At its simplest the system has to strike an appropriate balance between unfettered development and absolute protection of our rich natural and built heritage, and to do so in a way that reflects society's wishes as a whole. Striking that balance has produced in recent years an increasingly complex legislative and policy framework at European, national and local levels. Together with a huge increase in public involvement in the system and an unprecedented growth in the number of applications, it has inevitably had a progressively constraining effect on the speed at which the system can operate.

6. The following two sections say more about that legislative, policy and operational context and what we have been doing to ensure that we are as well prepared as possible to deal with

the challenges that it presents and that the system operates as efficiently as possible within the constraints that apply to it.

The Planning Context

Increasing Environment Regulation

7. In recent years a number of EC Directives have increased the environmental regulations to which all aspects of the planning process must have regard. The proposals and policies contained in development plans must be subject to strategic environment assessment and where necessary an 'appropriate assessment' under the Habitats Directive. In addition, there are assessments resulting from the social aspirations of society, including equality impact and rural proofing.

8. Compliance with these requirements has added to the time taken and the resources needed to prepare development plans. Failure to fully comply can result in judicial challenges, such as those currently to the Magherafelt and Northern plans.

9. On the operational side, a significant number of major planning applications now have to be accompanied by an Environmental Statement (ES). This often results in considerable amounts of detailed environmental data being required. Our experience generally is that there are deficiencies in this data when planning applications are submitted initially. As the environmental regulations have a rigid procedure which must be applied when further information is received, the result can be lengthy delays in the processing of the applications.

Increasing Public Awareness and Involvement

10. There is an increasing public awareness of the significance of the planning process in people's everyday lives. This awareness has led to a desire for greater involvement in the decisions which can affect the environment in which people live, and this has resulted in turn in a steep rise in the number of representations which are received to draft development plans and in the number of objections to applications. Additional steps have been added to our development plan preparation process, and the period for response lengthened, to accommodate greater public involvement. The higher level of responses to our draft plans has also had the inevitable consequence of longer public inquiries.

11. We have been operating an open file system since November 2001. However, the introduction of the Freedom of Information Act 2000 and the Environmental Information Regulations 2004 were designed to enable individuals to access even more information than they could previously. Last year planning issues stimulated some 70% of all requests received by the Department of the Environment and around a third received by all Departments. The requests inevitably have had both resource implications for the Planning Service and timing implications for the planning process as staff for dealing with them have had to be drawn from other areas of our work.

Increasing Demand

12. In recent years, the Planning Service has seen unprecedented growth in planning applications. In 2002/3 there were some 27,000. By 2004/5 this had risen to around 35,000. While growth had been anticipated and planned for, this rise was well beyond expectations.

13. There are a number of reasons for the growth – principally the more stable security situation and settled political circumstances providing further stimulus to the investment and development which the natural expansion of the economy inevitably draws along in its wake. Continued growth in the economy could stimulate further increase in certain types of applications, although it is possible that this could be off-set by a decline in other categories, such as rural dwellings which have been at unprecedented levels in recent years.

The Planning Service's Response

14. Planning Service is acutely aware that for an economy to flourish it must have a planning system which is supportive in two key ways: first, by providing, through its development plan and planning policy coverage, as much certainty as possible for those making investment decisions; and second, by responding to significant proposals in the form of planning applications as quickly and efficiently as possible.

15. For the past several years we have been working through a modernisation programme which has focussed on reviewing processes and policies, introducing new technology, reforming planning legislation, and taking forward internal organisational and structure changes. Further information can be provided on the detail of each of these elements of the programme, which addresses both the speed of the process and its openness or transparency. We highlight below those actions which have particular relevance to the development of the Northern Ireland economy.

Up-dating Development Plans and Planning Policy

16. Within the overarching framework of the Regional Development Strategy, development plans are the primary means of evaluating and reconciling any potential conflict between the need for development and the need to protect the environment within particular areas. They also ensure that an appropriate area of land is allocated to meet the local economic and social needs. Up-to-date plans thus help facilitate economic growth through the reduction in the level of uncertainty for the development industry.

17. Despite the increasingly complex nature of both plan content and process, Planning Service has maintained its focus on an ambitious programme covering areas in Northern Ireland without an existing up-to-date plan. We believe we have made good progress in implementing the programme. Within the past three and a half years, four plans have been published in draft format covering 13 District Council areas. We have also published two subject plans - one relating to Houses in Multiple Occupation in Belfast, the other covering Town Centre and Retail Designations in Craigavon. During the same period a further three area plans were adopted, and an additional draft plan is due to be published covering a further two District Council areas this month.

18. The current position is that there are up-to-date adopted or draft plans for 19 of the 26 Council areas in Northern Ireland. This effectively means that 63% of Northern Ireland in terms of land area (78% in terms of population) is now covered by up-to-date draft or adopted plans. Following publication of another draft plan later this month, the figures will rise to 21 District Council areas, 73% of the land area and 85% in terms of population. Plan coverage

for the remaining District Council areas is programmed for delivery through the three remaining development plans currently under preparation.

19. Alongside this, proposals to alter both the format and preparation process for development plans and to streamline public inquiries, including the use of informal hearings, have been assessed. The Planning Service and the Planning Appeals Commission have together implemented the majority of the improvements which have emerged from the assessment and a significant reduction in timescales for public inquiries should be achieved. We are, nevertheless, aware of concerns about the suitability of the current development plan system for today's rapidly evolving world and we will be looking at this further in the context of changes to be made to the system as a whole following the Review of Public Administration.

Re-structuring

20. On the operational side, on top of our routine business, we have over the past couple of years been taking action to ensure that we are in a position to respond quickly and effectively to the known demands on our service, such as the Investment Strategy for Northern Ireland (ISNI) programme and the major developments at Belfast's Titanic Quarter and the Maze. We also anticipate further demands in relation to waste and renewable energy, as well as significant private sector proposals such as those recently from Coca Cola and IKEA.

21. Within the past year we have further sharpened our focus by establishing a new unit at Planning Service headquarters to co-ordinate the response at Divisional level to applications which have significant economic and social benefits for Northern Ireland. This unit also has responsibility for processing specialist applications and leading in the promotion of good design, on which we have made a public commitment.

22. On the planned programme, the new unit is working closely with the Strategic Investment Board and government Departments to ensure that infrastructure projects in the ISNI are managed through the planning process. It has already paid dividends. Our effective management of applications for both waste water treatment works and drinking water projects was recently recognised by Water Service in terms of its contribution to meeting EU compliance and securing significant savings on the capital cost of the projects in the money markets. Planning permission has also been granted recently for the South West Acute Hospital at Enniskillen and for other hospital and education projects across the region. Pre-application discussions are continuing on other ISNI projects such as the new Public Record Office for Northern Ireland and significant projects such as the new visitor centre at the Giant's Causeway.

23. Significant private sector projects are also being managed as efficiently and quickly through the planning process as the quality of the applications and particularly the supporting information will allow. These include for example the south-north gas pipeline. The same approach is being used in relation to a range of other projects such as the proposed north-south electricity inter-connector which is the subject of pre-application discussions. We have been putting increasing emphasis on this approach and will continue to encourage developers to engage as much as possible with us about their proposals prior to submitting applications particularly where environmental information is required.

Conclusion

24. Northern Ireland is not unique in having an increasingly complex planning process at the heart of an expanding economy; and that complexity inevitably has a bearing on how quickly it operates to produce decisions, whether on plans and policies or on applications. It is also important to recognise in any debate about the system that within those constraints all those who participate in it have a significant contribution to make to its efficiency.

25. Planning is pivotal to the economy and can be both an impediment to its expansion and a deterrent to investment. The Planning Service is conscious of its role in trying to ensure that the process is neither an impediment nor a deterrent, and we have sought in this paper to highlight the measures we have been taking to adjust to an increasingly complex regulatory environment and enhanced public involvement. It is not a straightforward task and there is still work to be done, but we will continue to work hard with all those involved to ensure that the system can respond to the demands of the expanding economy.

7 August 2006

Quarry Products Association NI

Mr Alan Patterson
Room 414,
Parliament Buildings,
Stormont,
BT4 3XX

Dear Mr Patterson

1. Thank you for consulting the Quarry Products Association NI (QPANI) on the economic challenges facing Northern Ireland. The QPA welcomes the opportunity to comment and give its view on we develop a business environment that will create a world class Northern Ireland.

2. The QPANI is the principal trade association representing the Northern Ireland aggregates and quarrying industry. Our members produce over 95% of aggregates quarried in Northern Ireland – sand and gravel and crushed rock. They also produce agricultural and industrial lime, silica sand and marine dredged sand and gravel, as well as secondary and recycled aggregates, ready mixed concrete and asphalt products for roads.

3. Quarrying is a major industry in Northern Ireland. There are around 160 quarries and sand pits in NI producing £400 million worth of products per year. The construction industry, which contributes around 10% cent of the Province's gross domestic product, is totally reliant on quarrying.

4. It is essential that Government supports business and creates the conditions in which it can flourish and produce jobs and wealth. It is business that creates jobs to generate tax revenues to pay for schools, hospitals and public service improvements – everyone sharing in the benefits of the success of responsible business. "Profit" is not a dirty word, ultimately the fruits of economic success must be distributed fairly across society.

Our summarised comments are as follows.

Major Impediments to the development of the economy

1. The absence of a competitive tax regime with the Irish Republic.
2. Political instability.
3. Lack of willingness of people to change.
4. Lack of key skills in specific growth industries.
5. Ineffective decision making within Government Departments.
6. Over dependency on the public sector.
7. High levels of economically inactive people.
8. Over regulation and red tape.
9. Inadequate infrastructure and lack of investment in roads and public transport.

Possible Fiscal Incentives that may promote foreign direct investment and indigenous investment

1. Competitive tax rates with the Irish Republic.
2. A significant package of tax incentives is required which will create a step-change in economic performance
3. Capping of industrial rates at 25%.
4. Fiscal incentives that reward good environmental and safety performance.

Delivering Economic Regeneration

1. Long term investment in skills, science and innovation, and in transport infrastructure.
2. Smaller government, and ensure that the proposed reforms to public administration should lead to a leaner, fitter and more agile administration with resources focused on front-line services and the customer.
3. Government need to deliver meaningful deregulation of business, a reduction in business taxation, a more flexible labour market, a more efficient public services market and a more business-friendly European Union.
4. We need strong political leadership.
5. We must create an environment which offers a high quality of life to those who wish to live and work here - this will become increasingly important if we are to retain our young people and our existing highly-skilled employees and attract those people needed to drive the increasingly knowledge-based economy.
6. We must create a more positive international image for Northern Ireland – all of us have a responsibility through our words and actions to do what we can to create a more tolerant and respectful society. We must create pride in our community and we must rid our streets of the hatred and abuse that parts of society continue to embrace.
7. A reduction in the number of central government departments is required – this will create both efficiency savings and better joined-up government
8. Reduce energy and insurance costs.
9. Develop an efficient planning system.

Quarry Products Association NI

Rural Development Council

Further Reading: Rural Policy Perspectives: Assessing Rural Sustainability and Change.
Copies of this report are available from the Rural Development Council

rdc
Rural Development Council

Ref: MMcD/JW/040806

04 August 2006

Mr. Jim Wells, MLA
Parliament Buildings
Belfast
BT4 3XX

Dear Mr Wells,

RE: Sub-Group on the Economic Challenges Facing Northern Ireland

Further to your recent request for the views of the Northern Ireland Rural Development Council with regard to economic challenges facing Northern Ireland, I enclose for your consideration, a paper outlining our key thinking.

We hope that this meets with your requirements and that you will find it informative. If you have any queries regarding its content or require further information, please do not hesitate to contact us.

Regards,

P.
Sharon A McElyn

Martin McDonald
Chief EXecutive

Strategic Consideration of Rural Resources in Regional Development

1.0 Introduction

The Strategic Challenges

1. The need to maximise the potential of rural development funds to deliver job creation, innovation and growth.

2. The need to balance use of the countryside with longer term sustainability.

Rural areas in a changing marketplace offer considerable scope for economic innovation and contributions to quality of life choices; provided this is managed carefully to avoid displacement of local people through upward pressure on house and land prices and undue impact on the environment and biodiversity.

A renewed EU emphasis on the Lisbon Strategy means a tightening of the focus of the rural funds onto competitiveness and growth. The EU Single Rural Fund, however, cannot deliver the full range of benefits within what will be a limited pot of money. The understanding and expectations of rural development are changing, however, and in the longer term (2013 – 2018), an additional shift of 30% of funds from Pillar I to Pillar II of the CAP is envisaged.

As such, it is important that rural development is seen as a cross-cutting theme of government and supported through a combination of a mainstream rural development fund and enhanced rural proofing.

Enhanced rural proofing should challenge government to test and implement service delivery solutions which maximise accessibility to quality services within departmental budgets – a rural support body should be considered which can work with government to promote rural potential and offer such rural proofing solutions.

Enhanced rural proofing will have considerable complementarity with the objectives of the DoE Strategy for Sustainable Development and this needs to be encouraged.

2.0 The Opportunities

The Northern Ireland Rural Development Council's (RDC) submission to PriceWaterhouseCoopers' (PWC) review of rural policy emphasised the value of seeing Northern Ireland's rural areas as an important asset base for the region as a whole, both as a source of economic activity and as a contribution to quality of life.

Examples of some of the key socio-economic trends influencing our view of the potential role of rural areas in the region are shown in Tables 1 and 2 overleaf.

Northern Ireland Rural Development Council (RDC)
Submission to Sub-Group on the Economic Challenges Facing Northern Ireland

Table 1: Social Trends: Rural Communities as desirable places to live

Trend	Examples
Growth in the demand for homes in rural areas and a movement out from the city	Refer. for example, to Chapter 8 Shaping Our Future, DRD 2001, "In the 1990s the rural community living in small towns, villages, and small settlements in the countryside, has experienced the fastest rate of population growth reflecting, in part, the success of rural regeneration activities. In the open countryside, the largest growth of population over the past 25 years has been in the Belfast 'travel to work' hinterland reflecting the trend to use the countryside as a residential area for townspeople. There is evidence that this trend is extending beyond the hinterland towards the west and the south where good road connections exist."
Continuing emphasis on sustainable development and sustainable consumption, with clear recognition of the need for wider measures of regional economic progress and social wellbeing which may're-weight' the significance of different resources.	Redefining Prosperity: Resource Productivity, Economic Growth and Sustainable Development. Sustainable Development Commission April 2004. Developing an Index of Sustainable Economic Welfare in Wales. Countryside Council for Wales 2002
Research is suggesting that 'happiness' as a measure of progress in public policy, is linked not only to job security, but to health, trust, sense of safety, neighbourliness, belonging, participation in governance and a healthy lifestyle, qualities found to be even more important to wellbeing than levels of income.	John Helliwel (2001) 'How's Life'? Combining individual and national variables to explain subjective well-being. NBER working paper no w9065 The Economist Intelligence Unit recently placed Ireland at first position in its assessment of the 'best places to live' because: *"it successfully combines the most desirable elements of the new (the fourth highest gross domestic product per head in the world in 2005, low unemployment, political liberties) with the preservation of certain cosy elements of the old, such as* ***stable family and community life****."*

These social (consumer) trends have created a planning challenge in managing high demand for rural or countryside housing and the protection of the environment, with the need, in some areas, to revitalise the demographic health of the community.

Table 2: Economic Trends: Environmental Sources of Added Value

Trend	Examples
Growth in the demand for and innovative initiatives to promote authentic, local, diverse foods reflecting ethical, environmental and health concerns about food and farming.	• Growth in membership of the 'Slow Food' movement • Growth in the number and turnover of from farmer's markets (currently, £65 million / annum) box schemes • Rural Regeneration Unit Food Coops • Community-supported agriculture • Organic farming • Fair trade • Soil Association / Countryside Agency local food initiatives Local food market, as a whole, recently estimated to be worth £4 billion.
Growth in interest in outdoor pursuits and 'doing and experiencing' forms of tourism rather than 'relaxing'.[1]	• Households now spend more on leisure than on food, housing or transport and this is predicted to rise to a third or more of household spending (Office of National Statistics 1999) • The number of horses on farms increased by nearly 60% between 1991 and 2001, and horse riding is a growth area across the UK (ref Off-road Horse Riding in Northern Ireland, TCC International, for Countryside Access and Activity Network (CAAN) Northern Ireland)

[1] Countryside Agency 'State of the Countryside 2020'

Better understanding of the economic benefits of 'the environmental sector'.	• A recent study backed by the Countryside Agency showed that Britain's longest National Trail, the 630-mile South West Coast Path running from Somerset to Dorset, generates £300 million a year for its surrounding economies and supports 7,500 jobs. • The Countryside Council for Wales estimated the environment to provide 117,000 direct jobs, 52.000 indirect employment representing 17% of all Welsh jobs And Outputs and services worth £8 8 billion / annum. • Applied to the Mournes Area, (Mourne Heritage Trust), this might represent up to 7,500 jobs within 10 years and additional outputs and services worth £0.5 billion within 10 years
New opportunities presented by enhanced Information Technologies for distance working, a greater freedom of choice for the location of new businesses, and greater potential for global marketing of niche products for smaller producers	• DETI project a rise from 6 to 12% in the proportion of people tele-working over the next 4 to 5 years. • A GMB Union survey suggests as much as 15% of people work from home in Moyle, and 13% or so in many other western and southern parts, prior to the arrival of broadband across rural Northern Ireland

The rural policy review and associated roll-out of CAP reform highlight the need for diversification, restructuring and enhancing of the competitiveness of the rural economy away from a dependence on traditional forms of agriculture. The asset based (rather than liability based) approach features as a strengthening of the case for having a rural policy in PWC's review report. The DRD Regional Strategy also identifies the need to 'increase the diversification of the rural economy to meet employment needs and keep wealth circulating within local economies.

We would warn against a 'go with the flow' approach to rural employment and work which places emphasis on commuting to quality employment. This may act against the objective of a balance in economic activity across the region. Taken to its potential conclusion, it creates the possibility that the social function of many rural areas becomes a living space, particularly in the East, in contrast to the function of urban places as economic centres. Going with such a trend needs to be more fully costed in relation to the goal of sustainable development. Positive benefits (such as lower costs per quality job, economic synergies for urban centred growth, and protection of the countryside) should be set alongside negative costs (such as the impact of commuting on rural social capital, the impact on the global environment, and urban congestion).

3.0 Three Strategic Actions

3.1 Rural Strategic Employment Areas or Rural Resource Areas

A sufficiently strong signal or framework is needed within the regional strategic framework which provides a setting for focussed rural development activity. This should be beyond but complementary to the current AONBs or future National Parks and should enable rural resources to be related to and part of a wider regional development strategy, recognised both at government level (enabling linkages to be seen between rural development and regional development) and at grassroots levels.

Models might be examined such as the 'Active Regions' initiative in Germany, or the Pays in France.

Rural Strategic Employment Areas are one way this could be conceptualised in keeping with the Lisbon agenda. They can follow the principles of Strategic Employment Locations articulated within DRD's Regional Strategy They could in turn be characterised by specific development activities:

- Use of cultural and natural capital in economic development
- Encouragement of ecologically sound agriculture
- Branding of area products
- Closer links to consumers (links to DARD / INI Food Strategy)

Such a framework can assist in developing the approach to rural development but also the use of other funding lines. It should also inform the approach to area plans.

3.2 **Enhanced Rural Proofing** backed up by an independent agency acting to monitor, encourage and enable government departments in using rural resources and delivering public services into rural areas.

3. 3 Mainstream Funds

To encourage departments to actively pursue rural initiatives either in achieving more from less in sustainable service provision (we suggest, for example, exploring extended school models, and multi-purpose service centre hubs, and approaches to clustered approaches to village renewal) or in encouraging economic diversification. The RDP should act as a catalyst for new ideas to be taken up by mainstream initiatives.

Special EU Programmes Body

Mr Alan Patterson
Room 414
Parliament Buildings
Stormont BT4 3XX

09 August 2006

Re: SUB-GROUP ON THE ECONOMIC CHALLENGES FACING NORTHERN IRELAND

Dear Mr. Patterson,

I refer to letter received from Mr. Jim Wells, MLA, dated 28th July 2006 requesting a submission from the SEUPB on the issues to be addressed by the Sub-Group on the Economic Challenges Facing Northern Ireland.

It would be inappropriate for the SEUPB to comment on matters that affect the definition of policy in Northern Ireland unless specifically requested to do so by the Member State involved, as part of our role in managing and planning the delivery of EU funded programmes.

Should the sub group wish to consider matters related to the planning and delivery of EU funded programmes, the SEUPB would be happy to cooperate in any way possible. I would suggest in that case that the sub group may wish to approach the EU Division of the Department of Finance and Personnel, as the responsible Department on behalf of the Member State, to suggest that the SEUPB might be asked to contribute to your deliberations in this way.

Thank you for the invitation to make a submission. If I can be of any further assistance, please do not hesitate to contact me.

Yours sincerely,

Pat Colgan
Chief Executive

Tourism Ireland

The Tourism Potential for Northern Ireland

A Submission by Tourism Ireland

Introduction

The tourism industry in Northern Ireland has increased in economic importance in recent years. Tourism currently supports an estimated 51,390 jobs in tourism and leisure and represents approximately 2% of GDP. Between 2007 – 2009, tourism is estimated to contribute over £1.2 billion to the Northern Ireland economy in overseas earnings and will deliver the following economic benefits:

a) increase the level of consumer spending in the Northern Ireland economy;

b) add to the level of domestic employment;

c) contribute to the balance of payments.

In addition to the economic benefits, tourism also contributes to Northern Ireland socially, spatially and culturally.

Tourism Ireland is the body responsible for marketing the island of Ireland, to overseas tourists. It works with the Northern Ireland Tourist Board (NITB) to ensure the "Strategic Framework for Action 2004-2007" is implemented in a seamless manner.

Strong Growth in Recent Years

Overseas tourism revenue in Northern Ireland has been growing from strength to strength over the past five years and contributed £327 million to the economy in 2005 – an increase of +13% on 2004. British visitors are the strongest contributors, accounting for three-quarters of total overseas tourism revenue, while the strongest growth came from Mainland European visitors who spent £40 million in Northern Ireland in 2005 compared to £25 million in 2004. Overseas visitors stayed for 8.8 million nights in Northern Ireland in 2005, spending on average £192 per trip.

Tourism Revenue (£ millions)

	2001	2002	2003	2004	2005	05/04
Great Britain	186	184	216	231	250	+8%
Mainland Europe	20	26	22	25	40	+63%
Germany	4	3	4	6	9	+67%
France	4	6	4	5	6	+27%
Netherlands	4	3	5	4	3	-15%
Italy	3	2	2	2	2	0%
North America	30	22	18	24	26	+8%
Other Areas	17	11	10	9	10	+13%
Total Overseas	256	243	263	288	327	+13%

Source: Northern Ireland Tourist Board
Note: Changes in collection of statistical data occurred in 2003

Since 2001 overseas visitor numbers to Northern Ireland have increased by +29%, Great Britain grew by +24%, Europe by +66%, North America by +42% and Other Areas by +48%. A decline in visitors from Great Britain last year led to a decline in overall visits in 2005 of -2%. However visits from Europe grew substantially by +32%, as did visits from North America by +19%.

Tourism Numbers (000s)

	2001	2002	2003	2004	2005	05/04
Great Britain	1,065	1,166	1,376	1,408	1,308	-7%
Mainland Europe	106	110	126	133	176	+32%
Germany	23	24	30	27	42	+55%
France	17	16	19	24	21	-13%
Netherlands	21	25	20	16	17	+6%
Spain	8	11	14	10	11	+13%
Italy	8	7	11	12	14	+17%
North America	102	97	105	122	145	+19%
USA	75	73	84	100	105	+5%
Canada	27	23	21	22	40	+82%
Other Areas	50	45	60	70	71	+1%
Australia/New Zealand	33	26	30	42	47	+12%
Total Overseas	1,311	1,411	1,675	1,733	1,700	-2%

Challenges for the Future

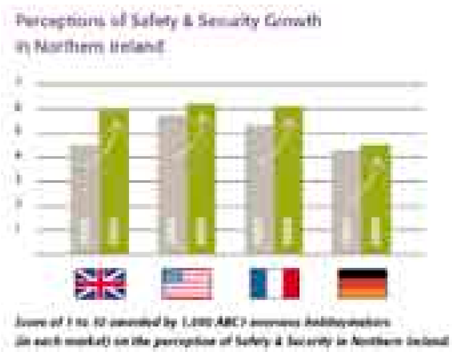
The travel and tourism environment has changed radically in recent years. It is expected that the international and national geo-political and macro-environment will continue to evolve unpredictably. Some of the leading trends and challenges that Tourism Ireland have identified are outlined below.

Global Challenges

- Demand continues to be heavily influenced by price, reinforcing later booking trends in all the island's main source markets and accentuating competition between destinations. Unfortunately continued increases in oil prices are likely to result in increased surcharges for air transport.
- The trend towards shorter stays continues to increase, which is leading to less revenue per visitor. Shorter stays are also leading to a shift from sea access to air access as holidaymakers are prepared to spend less time in transit.
- The travel and tourism industry has been transformed by the Internet as consumers are increasingly researching and booking their holidays online. This is leading to shorter purchase cycles as consumers do less planning before purchasing a short break trip.
- Travel to Eastern Europe and long haul destinations is increasing and Western Europe is losing market share.
- Consumer needs are changing. A high-quality holiday experience is becoming essential. The customer is ageing throughout Europe with the 55+ age group becoming increasingly prevalent. This impacts on product, service, value and price.
- The importance of security in a destination remains high in light of the on-going threat of global terrorism incidents.
- The Euro and Sterling continues to strengthen against the Dollar, which impacts negatively on the buying power of US visitors to Europe and to the island of Ireland.

Challenges for Northern Ireland

- Safety and security remains an issue for potential holidaymakers to Northern Ireland. Research carried out by Tourism Ireland indicates that holidaymakers from each of our core markets have reduced their perceived concerns in relation to safety and security in Northern Ireland. Nevertheless there is a gap still to be closed between perceptions of NI, the rest of the island, and other competitor holiday destinations.



- While capacity on European air routes to Northern Ireland continues to grow, load factors for inbound visitors from European countries remain quite low.
- In line with changes in exchange rates, Northern Ireland has experienced a perceived decline in value for money amongst consumers in our main markets beyond GB.
- In light of the continued growth in short breaks and the demand for urban holidays, achieving equal growth in tourism to all parts of NI will remain challenging.

Targeting Future Growth

In 2004 the Northern Ireland Tourist Board's "Strategic Framework for Action 2004-2007" outlined an objective to "increase visitor tourism revenue by 9% every year and visitor numbers by 7% and to increase Northern Ireland's share of visitors to the island of Ireland". The overseas revenue target of 9% was exceeded in both 2004 and 2005, with revenue growing by 10% and 13% respectively.

Tourism Ireland believes that these targets are indeed very challenging for the industry in a time when global tourism arrivals are only expected to grow by 4.1% per annum and European arrivals are forecasted to grow at an even slower rate of 3%. The World Tourism Organisation is only expecting global visitor revenue to increase by 6.6%. To reach these targets, therefore, Northern Ireland will have to grow much faster than global tourism.

Tourism Ireland believes that the current targets can be achieved once the underlying assumptions necessary to drive this growth, as outlined in the Strategic Framework for Action, are in place. However progress in delivery of the Signature Projects identified in the Framework document – which will result in new reasons for tourists to visit Northern Ireland – has not been at the pace originally envisaged in all cases. This may result in some corresponding delay in the achievement of the ambitious targets identified for tourism growth beyond 2007.

In considering the future growth potential for tourism up until 2009, we have taken into account various factors such as growth forecasts from our leading markets, anticipated air access developments and the size of the opportunity available to us in each of our target markets. While inevitably there will be some disruption to the global travel environment in the years ahead (e.g. due to another global terrorist incident, more natural disasters or indeed a pandemic), nevertheless the underlying trend remains positive for tourism travel growth to Ireland for the foreseeable future

Based on international tourism forecasts and future market trends, we believe that Northern Ireland given favourable global trading conditions, can achieve a tourism revenue growth rate of 7.5% per annum, which is ahead of expected world tourism revenue growth. However to achieve this there is a need for further tourism product development and sustained investment in overseas marketing.

If, however, there were to be limited development of the tourism product, access capacity, investment in promotion, or infrastructure development, then the revenue growth achievable by Northern Ireland is more likely to mirror the growth of other European destinations at 4.8% per annum.

Again based on international tourism forecasts and future market trends, we believe that Northern Ireland can achieve 4.5% growth per annum in visitor numbers for 2007 – 2009, which is above both World and European growth rates.

To achieve this level of growth NI will have to at least hold its share of the outbound market from Great Britain, while achieving premium growth from Europe on the basis of likely continued increases in air access. We are anticipating above average outbound from the US, however this is premised on additional access to the island of Ireland. From long haul markets we are anticipating strong growth as new markets open up in Asia and elsewhere.

In order for the sector to deliver this growth, government funding for overseas marketing must be increased annually, at minimum in-line with the proposed increase in targets in real terms. In addition there is a need to increase human and financial resources in new and developing markets in order to deliver additional growth from these markets.

Marketing to the Overseas Holiday Maker

As competition increases, the next seven years will be very challenging for the industry. With new destinations on offer to the consumer, the industry needs to deliver new and innovative products, to ensure that Northern Ireland is competitively priced and that we maintain our warm welcome in order to set the island of Ireland apart from the competition. In the next seven years, Tourism Ireland's strategic challenge will be to ensure that the island of Ireland, and Northern Ireland within that, achieves standout in our key target markets.

Following reviews of each of the island of Ireland's core markets, Great Britain, Europe and North America will remain Ireland's largest source markets for the foreseeable future. In order to exploit these markets, Tourism Ireland and the island's industry will need to:

- Increase volume growth from each market.
- Effectively target our best prospects.
- Communicate the right message.
- Offer the right products to potential consumers.
- Use eMarketing tools to target potential customers more effectively.

In Great Britain, Northern Ireland's largest market, the primary goal will be to convince a greater number of British, and in particular Scottish, holiday makers that now is the time to come to Ireland for a holiday. In Europe, Northern Ireland will need to build on current air access levels and effectively target our best prospects, Sightseers and Culture Seekers, in order to achieve continuous growth.

Initial findings from our review of the North American market indicates that the USA will offer good potential for tourism growth. This growth will be partially due to additional capacity and the development of new access routes following the proposed amendment of the US – Europe bilateral agreement. Nevertheless, since there will be 'Open Skies' throughout Europe, competition will intensify and Northern Ireland will have to increase its marketing investment in order to maintain and grow its market share in the future. We will also continue to increase our investment in targeting the Ulster Scots market. This segment is the 14th largest ancestral grouping within the USA, with 4.3 million people and 1.5% of the total population claiming Scots-Irish ancestry.

We will also focus on increasing market share from underdeveloped long-haul markets such as Japan, China, India and the Middle East – some of the fastest growing markets in the world. South Africa also offers great potential for the island of Ireland. In order to exploit this potential, a dedicated strategic development fund will be required to target these markets effectively. This fund should not be a trade off or a switch of funds from investment in other core markets, but rather a dedicated fund to boost marketing activity in these new and developing markets. With new access opportunities opening up these markets offer great opportunity for Ireland, as these visitors tend to spend more, stay longer, and visit more parts of the island than our typical visitor.

The Importance of Access Development

Northern Ireland is more dependent on the availability of convenient, competitive and direct access services than most other countries. Many European countries have a range of travel options available (i.e. air, rail, road), while the island of Ireland is totally reliant on air and sea services.

Northern Ireland is well served by the quality and capacity of sea routes from Great Britain but is heavily dependent on air access, which is the chosen mode of travel for approximately 71% of visitors. Air access capacity to Northern Ireland has increased substantially by 42% in the summer of 2006 compared to the summer of 2004. This growth is mainly driven by increased capacity from Great Britain, new routes from Europe, and direct service from the US. On the other hand, sea access has declined by 15% from Great Britain in the same period.

Continued access development is fundamental to realising tourism growth. It will be critical to sustain existing air and sea routes and to develop new routes directly to Northern Ireland. Likewise investment in infrastructure in terms of the road network, airports and sea passenger ports will be important.

Tourism Ireland therefore strongly supports the continued work of the Air Route Development Fund (Northern Ireland) and will support any future successor. Specifically, Tourism Ireland will work with the Fund and with the NITB to identify and develop potential new routes, and will invest with access partners to exploit the potential of these routes to deliver overseas visitors to NI.

Further Product Development Is Essential

To meet the changing demands of the consumer, the Northern Ireland tourism product needs to be constantly developed. Tourism Ireland informs and influences product development by sharing the latest consumer demands and insights from overseas markets with Northern

Ireland Tourist Board. We believe that Northern Ireland's product development strategy over the medium-term should be to:

- Continue to develop and deliver on the Winning Themes and Signature Projects outlined in the "Strategic Framework for Action 2004-2007". The development of the Signature Projects will be fundamental to delivering tourism growth as these icons give the potential visitor reasons to visit Northern Ireland today (and not some time in the future).
- Develop products that specifically appeal to consumers that go on holiday to sightsee and engage in cultural activities – the main motivation of overseas holiday makers to the island.
- Continue to develop new tourism products, ensuring that they are in harmony with the natural environment; continue to improve the transportation infrastructure to facilitate the spread of tourism; and ensure quality is enhanced throughout all elements of the industry to deliver an excellent customer experience.

Fiscal Investment Needs to be Maintained

In order to achieve the growth outlined and deliver on the strategic challenges facing the tourism industry in Northern Ireland, the investment in overseas marketing will need to be increased in-line. This investment in tourism marketing will allow Tourism Ireland to:

- Increase the overseas marketing impact of Tourism Ireland's all-island campaigns, in the face of increasing competition and investment by other destinations and the expansion of marketing channels used to target the consumer.
- Continue to address the perceptual barriers that impact on travel to Northern Ireland and highlight a positive image worldwide.
- Maintain and grow our market share in our core markets – namely Great Britain, North America and Europe – and develop new markets such as Japan, South Africa, China, India and the Middle East.
- Evolve Tourism Ireland's marketing campaigns to ensure that they remain fresh to consumers and competitive with those of competing destinations.
- Engage in cooperative marketing activities with air and sea carriers in order to create awareness and demand for new routes and sustain strategically important existing routes.
- Promote new and strategically important products to potential visitors.

In addition, the investment required to make the Signature Projects a reality is essential in order to provide NI with tourism attractions of significant international renown. On-going investment will also be required in human resource development and in the stimulation of further product development and quality enhancement.

Conclusion: A Positive Future Awaits

Tourism is an increasingly important industry for Northern Ireland on several levels: economically, socially, spatially and culturally. However tourism will have to overcome some challenges if the growth seen in recent years is to be realised again in the years ahead.

Tourism Ireland shares the belief of the industry on the island that the future looks positive for tourism. With appropriate levels of investment, we believe that the challenges can be met successfully and that tourism will continue to grow on the island of Ireland and in Northern Ireland into the future.

University of Ulster

Mr Alan Patterson
Room 414
Parliament Buildings
Stormont
BT4 3XX

8 August 2006

Dear Mr Patterson

I am writing with regard to the letter addressed to Mr E Friel of the University from Mr Jim Wells MLA (copy attached). This correspondence has been passed to me for action.

Obviously it would have been preferable if the University had been involved at an earlier stage in this process to allow due consideration of this important issue. However, I appreciate that the timescale is extremely restrictive and the Committee is constrained in this regard. However, the University welcomes this review and is pleased at the opportunity to make this limited submission.

The University is committed to playing its part in the economic, social and cultural regeneration of Northern Ireland. I believe that it is well placed to contribute to this process. With over 25,000 students across four campuses distributed across the region and an annual spend of circa £150 million, the University is already making a significant contribution to the economy of the region. In this regard, it would be useful for the Committee to receive and review the most recent Universities UK review on 'The Economic Impact of UK Higher Education Institutions' and I have attached a copy of this for your information. In particular, I would draw your attention to the Key Findings section on pages 7 & 8 of the report which clearly demonstrates the impact universities have on the UK economy.

The University of Ulster is committed to further expansion, particularly in the North West region (Londonderry/Coleraine) where socio-economic deprivation is at its worst, and is currently drawing together a plan for such expansion; this will be presented for consultation in due course. However, the University is severely restricted in its ability to expand because of the current restriction on full-time undergraduate numbers imposed by the Department for Employment and Learning (DEL); the Maximum Aggregate Student Number, or MASN cap. The University would welcome open discussion on this matter and would be pressing for a targeted lifting of this cap predicated upon a development plan for the North West which clearly demonstrates the economic, social and cultural benefits of the University of Ulster's expansion.

I would be more than happy to meet with the Committee to outline our plans in more detail if you thought this would be worthwhile.

I hope this brief response is useful to you, and I look forward to an opportunity of expanding further on the University's development proposals with the Committee if this is thought to be useful.

With best regards.

Yours sincerely

Professor JM Allen
Pro-Vice-Chancellor (Communication and Institutional Development) and Provost (Magee)

cc. ViceChancellor

Extract: The Economic Impact of UK Higher Education Institutions (Universities UK)

Executive summary[1]

Introduction

The economic importance of higher education is now well recognised and the contribution that it can make to the development of both national and regional economies is attracting significant policy attention in the UK. Higher education is seen as being of key importance in the creation and transfer of knowledge to the UK economy through its teaching, research and other activities. Both the White Paper on 'The Future of Higher Education' (2003) and the Lambert Review of University-Business Collaboration (2003) envisaged the sector as playing a pivotal role in ensuring the country's economic competitiveness.

Higher education can impact on the economy in a very wide range of ways. Increasing attention is being paid to the contribution of higher education to the stock of human capital, with continuing analysis of both private and social rates of return to graduates. Higher education is also considered to have an important impact on the social and cultural environment, and this in turn has an impact on the economic environment within which business operates. However higher education institutions are also independent business entities and the economic activity generated by institutional expenditure (the aspect of sector's economic contribution which is most readily quantifiable) is substantial. The extensive scale of higher education institutional activity across the UK also means that this can be of significant importance at the macroeconomic level.

This study presents key economic features of UK higher education in the academic and financial year 2003/04 and those aspects of its contribution to the economy that can be readily measured. Analysis is made of the sector as a conventional industry, highlighting major economic characteristics of higher education institutions including their sources of revenue, employment created, output generated and export earnings attracted. Modelled estimates are made of the economic activity generated in other sectors of the economy through the secondary or 'knock-on' multiplier effects of the expenditure of the higher education institutions, their staff and that of international students and visitors attracted to the UK by the higher education institutions.

Methodology and data sources

The higher education institutions (HEIs) included in this study are the 171 institutions included in Higher Education Statistics Agency (HESA) data for the academic and financial year 2003-2004. The study focused on the examination of key economic characteristics of the HEIs and the impact generated by their activity. The study also examined the impact of the off-campus expenditure of international students (i.e. all non-UK domiciled students) studying at the UK HEIs. Modelled estimates were also made of the impact of the off-campus expenditure of international visitors attracted to the UK by the HEIs. The off-campus

1 *The full submission can be downloaded from the following location: http://bookshop.universitiesuk.ac.uk/popup/default.aspx?ID=237*

expenditure of UK domiciled students was excluded as this may not be regarded as additional to the UK economy as a whole.

The model used was a purpose designed and specially constructed 'type II' input-output model based on actual UK data derived from the 2001 Office of National Statistics input-output tables together with labour force survey data.

Data on higher education institutional finance, staffing and students were obtained from HESA. Other data sources included Travel Trends (Office of National Statistics) and Department for Employment and Skills student expenditure surveys.

Key findings

Higher education institutions: direct income, expenditure and employment

- In 2003-2004, the total revenue earned by **UK HEIs** amounted to £16.87 billion. In terms of sectoral gross output this was greater than the UK pharmaceutical industry and only slightly smaller than UK legal activities and auxiliary financial services.
- **HEI** revenue from 'core' public sector sources (defined as funding council grants and academic fee payments from the public sector) accounted for just under 48% of all **HEI** income
- Total revenue from all public sector sources amounted to £10.3 billion or 61% of all income.
- Income from private sector sources accounted for £4.6 billion or 27% of all **HEI** income.
- **HEI** international revenues (institutional gross export earnings) amounted to nearly £2 billion representing nearly 12% of all **HEI** income.
- In 2003-2004 **UK HEIs** spent £16.6 billion, with the single largest component of expenditure being labour costs, which accounted for 59% of all costs.
- **HEI**s directly employed over 330,000 people, which equated to approximately 280,000 full time equivalent (FTE) jobs. This was equivalent to 1.2% of total UK employment.

Higher education institutions: secondary or 'knock-on' multiplier effects

- The expenditure of **HEI**s and their staff generated additional output and employment across the economy.
- For every 100 full time jobs within the **HEI**s themselves, a further 99 FTE jobs were generated through knock – on effects. Over 276,400 jobs in other sectors of the economy were dependent on the **HEI**s.
- For every £1 million of **HEI** output a further £1.52 million of output was generated in other sectors of the economy. This meant that an additional £25.6 billion of output was generated outside the **HEI**s as a result of their expenditure.

International students and visitors

- Personal (off-campus) expenditure of **international students** attending UK **HEI**s in 2003-2004 was estimated to be £1.5 billion. This was equivalent to 9% of all UK receipts from overseas visitors to the UK for the year 2004.
- Higher education makes a key contribution to business tourism. Personal (off-campus) expenditure of **international business and recreational visitors** to UK **HEI**s was estimated to be just over £106 million or around 1% of all UK receipts from overseas visitors to the UK for the year 2004.
- The expenditure of international students and visitors also generated output and employment throughout the country. .
- International student expenditure generated £2.4 billion of output across the economy and over 21,900 jobs.
- International visitor expenditure generated nearly £200 million of output and over 2700 jobs.

The overall impact of the higher education sector

- "Higher education sector" impact is defined in this study to be that of the higher education institutions together with that of international students and visitors to the **HEI**s.
- Gross export earnings for the **HE sector** in 2003-2004 were estimated to be over £3.6 billion. This includes the international revenue earned directly by the **HEI**s together with the additional personal expenditure of international students and visitors.
- In 2003-2004 the HE sector spent some £15.4 billion on goods and services produced in the UK.
- Through both direct and secondary or multiplier effects this generated over £45 billion of output and over 581,000 full time equivalent jobs throughout the economy. The total employment generated was equivalent to around 2.5% of the workforce in employment.

UU Tech

7 August 2006

Submission by Uutech Ltd to the Northern Ireland Assembly Sub-group on the Economic Challenges Facing Northern Ireland

1. **To identify the major impediments to the development of the economy in Northern Ireland.**

It is important to consider those factors which are endemic or structural, and incapable of adjustment, and those which can be changed, however difficult the change may be.

- Northern Ireland is a tiny economy in the context of the global, European or even greater UK market. It is small even in relation to its nearest neighbour, the Republic of Ireland. The consequence of this lack of scale is that industries requiring reasonable economies of scale in the markets they address must of necessity build customers in countries or regions where they (a) by definition have no physical presence, and (b) limited resources in relation to the size of the market.
- For inward investment, the obvious obstacle to rapid growth is the fiscal comparison with the Republic of Ireland. While multinational companies insist for public consumption that their decisions to invest in the Republic of Ireland are based on educational standards, quality of research and innovation and only then on the attractions of a 12.5% Profits Tax regime, there is little doubt that the latter is the critical factor in most such decisions.
- The Northern Ireland cost base is not substantively dissimilar to the Republic of Ireland, in terms of wages, energy and transport. In fact, in some sectors there is a case to be made that wages and rental are lower than in the Republic of Ireland, so on a strict comparison of financial costs and benefits the tax regime stands out.
- A further impediment to the development of the Northern Ireland economy is the perceived political instability. While Ministers delegated to Northern Ireland by the London government are hard-working and well-meaning, the reality is that their democratic constituencies lie elsewhere, and the notion that economic development in Northern Ireland is their absolute priority is unconvincing.

2. **To consider fiscal incentives that may promote foreign direct investment and indigenous investment**

- It seems to be the case that on a per capita basis Northern Ireland's universities produce significant intellectual capital. While various mechanisms exist to promote and encourage development of intellectual property (IP), principally through the Department of Education and Learning and Invest Northern Ireland, the scale of such incentives is limited.
- A central pool of funds focused on developing IP, similar to the National Science Foundation in the US, and closer to home Science Foundation Ireland, could be used as

a direct and attractive incentive to major companies to locate their research and development operations in Northern Ireland.

- A sharp focus on strategic imperatives in new technology – Nano-tech; medical devices; bio-tech; bio-informatics – should be developed, and aggressively funded. Mistakes will be made, and should be tolerated, within reason, so that the strategy is not frozen by a fear of failure.
- A real understanding of the process of clustering is needed. How do clusters of economic activity really evolve? One theory is that clustering occurs naturally around universities, and while there is little doubt that foreign direct investment (FDI) requires a pool of high-calibre skills, more is needed. Businesses do not automatically cluster around universities, but rather around industrial/research complexes, including universities and
- Many successful recipients of FDI – Republic of Ireland; China's Special Economic Zones; Singapore's high-tech manufacturing zone – have initially been geographically focused. Build a factory in Shenzhen, or open a back office in the International Financial Services Centre, or an export-oriented operation in Singapore's high-tech export zone and win considerable direct financial incentives, in addition to a highly competitive tax rate.
- Indigenous industries should have incentives to partner with multinational businesses in special zones, to encourage sustainability and also to assist indigenous businesses to scale-up for addressing global markets.

3. **To consider how other matters including an economic package/peace dividend could contribute to economic regeneration and how this might be delivered.**

- It would be unwise to attempt to "throw money at the problem", without careful assessment of Northern Ireland's inherent strengths and weaknesses. It is true that many problems can be solved with the lubricant of funding, but the creation of a "tax haven" would be counter-productive in the medium to longer term.
- Instead, any economic package/peace dividend should come with strings attached, in that companies investing in and locating Research & Development (R&D) operations should be actively encouraged and rewarded, while those obviously seeking a low tax regime for their European operations, while not rejected, are treated less generously.
- It would be an idea to develop as a pilot project a "Special Economic Zone", in which companies willing to invest in projects with a defined proportion of R&D output are given a particular level of support, together with a tax holiday followed by a period of concessionary tax rates. Partnering with a local company or with a local university can attract an incremental level of support or an even more attractive tax regime.
- The over-riding requirement must be a simple, seamless and above-all quick decision-making environment. There is no point putting in place a mechanism for attracting new investment and then stifling it with layers of bureaucracy and opaque decision-making processes.
- It is understood that public funds are at stake, and as such a duty of care rests on those responsible for dispensing funds. But the need for a transparent, clear and rapid process

should not be under-estimated, and the creation of a new entity, unencumbered by history, should be considered.

- There is a great deal of competition in the world for FDI, and any new initiative, especially if it is to be a genuinely well-funded and focused approach, needs to be bold and unequivocal. Develop a strategy; identify the most attractive targets and court them aggressively.

UUTech Ltd

Youth Council for NI

ycni
investing in youth work

31 July 2006

Mr Jim Wells, MLA
Parliament Buildings
Stormont
BELFAST BT4 3XX

Dear Mr Wells

Thank you for your invitation to make a submission to your sub-group considering the economic challenges facing Northern Ireland.

In the short time available and given existing work commitments, it is not feasible for the Council to construct a significant response. The Council's work focuses on supporting the delivery of services to young people, and so it is perhaps instructive to highlight one or two financial facts about the youth service.

The total Department of Education input into the youth service is around £19M per annum. This is complemented by the activities of 18,000 volunteers whose contribution has been valued at £45M per annum. Therefore, the youth service and its agencies represents excellent value for money to the public purse. In addition, many of these voluntary youth workers acquire skills which are transferable to their paid work environment. Finally, around 190,000 young people who in membership of youth organisations also acquire knowledge, skills and attitudes which improve their employability and enhance the Northern Ireland economy.

I wish your sub-group every success in its endeavours.

Yours sincerely

D B GUILFOYLE
Chief Executive

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Appendix 4

Section 4:
Party Submissions

Alliance

Economic Challenges Facing Northern Ireland

Alliance Party submission to PfG Sub-Group, Northern Ireland Assembly

16 August 2006

The Good Friday Agreement and its implementation hold out the prospect of Northern Ireland putting in place the first two prerequisites for a favourable environment in which business can prosper – peace and stability.

Meanwhile, deeper problems remain within our society. The Northern Ireland economy has to adapt to the new realities of the European and global economies, and to be competitive in the hi-tech future of the emerging ‘new economy’.

Economic development policy must be one of the main priorities of the Northern Ireland Assembly.

Alliance favours a mixed economy, in which a primacy of market solutions is balanced by a government and public concern for social justice. The role of government, especially with the onset of a knowledge-driven economy, should be to create the right framework conditions for a dynamic and high-growth economy.

A successful economy and prosperity are essential to creating the favourable conditions for the development of a shared, non-sectarian society, and giving people a stake in the consolidation of peace.

The economy of Northern Ireland is our own responsibility. We must stand on our own financial feet. What is required is a change of culture.

We need to encourage entrepreneurship and applaud local success stories: we need to be positive and outward-looking, with confidence in our abilities and skills. We need a ‘can-do’ culture that focuses on results.

We must give greater recognition for the increasingly vital role women have in our economy. This includes removing social barriers to their promotion to upper management, and delivering equal pay. Alliance is confident in the abilities and skills of men and women, equally.

Our economy will be driven forward by private business. Government can encourage this by removing structural obstacles. Our vision must be modernised:

- Northern Ireland suffers from the lack of control over fiscal policy. This contributes to an over-dependence on grants rather than tax-breaks and incentives for attracting inward investment. We need to be more financially independent, so we can take more responsibility for our spending priorities.
- Northern Ireland has too small a base in new high-tech, knowledge-based industries. We spend too little on Research and Development, which curtails innovation.
- The Euro-zone (especially including the Republic of Ireland) and EU enlargement will further force Northern Ireland companies to be more globally competitive.

Major Impediments to Development of NI Economy

Costs of Segregation

1. Segregation carries huge human and financial costs. At the human level, it denies people opportunities, ruins lives, and deprives society of the full benefit of their talents.

2. <u>Alliance has identified that approximately £1 billion of public expenditure in Northern Ireland is wasted in dealing with the direct and indirect costs of managing a divided society</u>. At the same time, Northern Ireland suffers the longest hospital waiting lists in the UK, has a crumbling infrastructure, and is facing punitive water charges.

3. The costs of a divided society are apparent in three respects.

4. First, there are the <u>direct costs</u> of policing riots, other civil disturbances and parades, the distortions to policing that arise from the security threat, and the costs to a wide range of agencies in repairing damaged buildings and facilities.

5. Second, there are the <u>indirect costs</u> of providing duplicate goods, facilities and services for separate sections of the community, either implicitly or explicitly. This includes: schools, GP surgeries, job centres, community centre, leisure centres, and even bus stops. These costs are borne not just by the public sector, but by the private sector too. The divisions and segregation in Northern Ireland have also proven to be a major deterrent to inward investment, and to tourism. The costs of attracting inward investment and tourism can also be taken into consideration to a large extent.

6. Third, there are the <u>opportunity costs</u> of lost inward investment and tourism. While the Northern Ireland economy has performed well in recent years, it is still performing well below its potential capacity.

7. Alliance believes that this money could be much better spent in providing quality services to all the community.

Over-reliance on public sector

8. The situation is not that the public sector is too big, per se, but that the private sector is too small. It is not the case the Northern Ireland needs fewer nurses, teachers and police officers, or to reduce the level of public services we receive.

9. Instead, the real issue is to create a culture in which the private sector grows. Far too many of our people are, if not unemployed, under-employed. We need to develop a modern economy, based on a high skill work force, in which the private sector receives the necessary support to become the engine of growth for the economy.

Economic inactivity

10. Otherwise positive employment figures for Northern Ireland mask a very high level of economic inactivity here, for a variety of reasons. This means that we still do not have the proportion as high a proportion of our adult population in the workplace as we would like. Clearly, it also remains the case that private-sector employment levels are too low. There is a very real question mark over what would happen to our workforce if state-funded and state-subsidised jobs were not such a large part of our economy.

Too much dependency on low-growth, low-wage, and/or low-added value industries

Too small manufacturing base

Too small base in hi-tech, knowledge-based industries

11. We have spent comparatively less on Research & Development as a portion of GDP as our neighbours and most European competitors. Innovation therefore suffers.

Inappropriate education system

12. Our divisive education system runs counter to the ‘can do’ philosophy that needs to be promoted.

13. There is a significant skills mismatch between employer needs and the skills that many unemployed people can offer.

14. The tertiary level education sector is comparatively small. Furthermore, too many people, especially those with the greatest level of potential, leave Northern Ireland.

Uncompetitive infrastructure

15. Energy costs are comparatively high within the UK.

16. There is insufficient competition in the transport sector.

17. Transport quality and transportation costs are a barrier to the free movement of people (including tourists) and of imports and exports.

Fiscal Incentives to Promote FDI & Indigenous Investment

Lower corporation tax

18. Much has been written about the lower rate of corporation tax levied in the Republic of Ireland, and how this makes it more difficult for firms in Northern Ireland to compete for inward investment.

19. It is unlikely that HM Treasury would agree to vary corporation tax within the United Kingdom. It would be difficult to regulate which firms would be allowed to benefit, as HM Treasury would not want firms registered. There would also be European Union regulations to prohibit such a move.

20. Furthermore, the circumstances under which the Republic of Ireland implemented and benefited from a lower corporation tax do not apply to Northern Ireland.

Tax-varying powers for Northern Ireland

21. Alliance wants to abolish the regional rate and replace it with a method based on ability to pay. Having tax-varying powers will give the Northern Ireland Assembly a greater ability to reflect the democratic wishes of local people, and enable the capacity to offer tax incentives to stimulate local economic growth.

22. Tax-varying powers can be used to rate taxation according to profitability, employee size, and/or growth potential. This provision of enhanced tax incentives could be the first of its kind to produce rewards for success, and encourage growth at an exponential rate.

23. For example, tax could be reduced for SMEs with less than 3 years of trade.

24. Also, the use of tax breaks should be used to attract investment to designated disadvantaged locations.

25. The use of tax credits should be considered to encourage export profits, and fiscal policy to target the development of several clusters of growth.

Wealth creation

26. The Government needs to turn its attention to real wealth creation. In Northern Ireland, the particularly means enabling small business the ability to grow. This requires scaling down bureaucracy and keeping various industrial rates and charges to a minimum.

27. Meanwhile, wider British Government economic policies on national insurance and pensions have more significant impact in Northern Ireland, as our private sector economy consists of a relatively high number of small and medium size businesses.

Peace Dividend

28. It was regrettable that the matter of Northern Ireland's economy was an integral part of the Multi-Party Talks that led to the Good Friday Agreement.

29. Alliance encourages a transformation of Northern Ireland's economy to one of private-sector led growth, with globally competitive businesses.

30. Alliance believes that the role of government is to provide the right framework conditions for a dynamic and high-growth economy.

31. Significant investment will be required in the following areas:

- Development of a Green economy (sustainable development)

- Training & Education
- Quality public transport and strategic transport routes
- Common civic space
- Tackling social exclusion

Democratic Unionist Party

Economic Challenges – 17 August 2006

Entrepreneurial Opportunity

The Government cannot create entrepreneurs but it can help cultivate a “can do” culture. Absolutely everything that the Government does in relation to economic government must be rooted in the philosophy that it is public policy to support and encourage business to grow and develop and that the Government and its agencies will always approach business, its problems and its aspirations with the intention to assist and not hinder its development.

Encouraging entrepreneurism is something which requires attention at virtually very level of Government. It pervades wide ranging areas of Government including education, regional development and the tax system.

Northern Ireland needs a serious dose of introspection within its Government department’s vis-à-vis their relationship with the business community and the promotion of a genuine partnership between Government and business with Government taking on the role of facilitating entrepreneurial opportunity.

Corporation Tax

Believing the sharing of a land border with an economic competitor whose headline corporation tax rate is 12.5%, the DUP supports the lowering of Northern Ireland’s headline corporation tax to below 12.5%. If reducing our headline rate is a step too far for the Treasury, then we would be prepared to look seriously at a “cocktail” of fiscal incentives that would have the same net effect as lowering corporation tax to less than 12.5%. There are alternative ways to achieve the same result such as the proposal that approved and allowable expenditure for research and development and training and marketing included in the corporation tax computation could be multiplied by a factor of three and allowed as a deduction in arriving at the taxable profits for businesses based in Northern Ireland. In addition to enhancing Northern Ireland’s attractiveness to investors, this proposal could also address issues with research and development, increasing our exports and developing new skills.

Other Tax Incentives

The DUP supports the re-introduction of 100% capital allowances for plant and machinery and computer software and equipment for Northern Ireland companies. Such a move would incentivise companies to expand, invest and innovate.

Red Tape and Bureaucracy

We propose a meaningful, comprehensive review of all business related regulations with the aim of radically reducing the time, money and energy local business spend on red tape and bureaucracy. Particular emphasis should be placed on eliminating regulations which are outdated and no longer required yet still in operation or requests for information which is already easily available within the Government system.

Education, Skills and Training

Our education system is not attuned to the needs of the business community. Whether it is at primary, secondary or tertiary level, schools, colleges and universities need to be teaching from curricula that value business and are producing students with the required skills to boost our economy. We need real synergy between Government departments like DETI, DEL and DENI so that our skills gaps are being filled. Our educational establishments need to especially appreciate the skills needs of niche areas of our economy and address these. Classes and research need to be tailored to generating skills and producing products which are of real use in commercial ventures. The Modern Apprenticeship system must produce real jobs at the end of them.

Tourism

The DUP believes that tourism has an exceptional potential for growth within the Province and that Northern Ireland has a unique tourist product to sell to the world. Our full potential is not being met by the present fascination with marketing Northern Ireland as an offshoot of the Republic. Some 30 million tourists enter the United Kingdom each year; a figure far, far higher than that which comes to the Irish Republic. Northern Ireland should exploit the benefits that can be derived from being an integral part of the UK and a neighbour of the Republic of Ireland. Investment in the further development of Ulster Scots history and culture as a tourist attraction is paramount. The potential of Ulster Scots has never been properly realised despite the fact that it has tremendous possibilities in attracting new tourists to our shores. Northern Ireland's own distinct tourist attractions like the Titanic and the Giants Causeway should be at the forefront of a Northern Ireland focused tourism campaign. Additional ongoing support for the air route development scheme is essential.

Research and Development

Companies in Northern Ireland remain unwilling to engage seriously in research and development with 60% of our R&D output accounted for by just 10 companies. In addition to incentivising R&D through the tax system, suggestions for improving this bleak picture include bringing several similar or related companies together in a cluster where they can pool their resources or appoint R&D managers in an area to look after, support and encourage companies engaging in R&D. The very term R&D often conjures up concerns for small to medium sized companies who perceive it be about inventing brand new products. R&D is also about product development and any strategy aimed at encouraging R&D should also focus upon product development and identifying product life cycles.

Planning

Where it relates to business, Northern Ireland's planning system needs a serious overhaul. A user-friendly system which fast tracks economy related applications and delivers coherent and consistent decisions with the minimum of delay is essential so that our existing companies are not deterred from expanding and new ones will not bypass Northern Ireland for a destination where it doesn't take forever to obtaining planning permission.

Creating Jobs

It is not the Government's job to create jobs. If anything, the Government's principal responsibility at present within the employment sphere in Northern Ireland is to assist in ending our over-dependence upon the public sector for jobs. The DUP would suggest that the Government devise a strategy to significantly lower the number of economically inactive people in Northern Ireland; a figure which is presently estimated to be well in excess of 100,000. Government should employ the same tactics it did to tackle unemployment in the Province. We appreciate that moving people from long term inactivity to employment will require support and this is where the Government can provide assistance.

Sinn Féin

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Economic challenges facing the Assembly – A Sinn Fein response

It is necessary to point out that the truncated time frame for our discussions has necessarily meant that we did not have the opportunity to access all of the information that would underpin a comprehensive economic development strategy for an incoming Assembly and Executive. Neither did we have adequate time to resolve all of our differences in analysis. Nevertheless some agreement emerged and it is a welcome change to the focus of Six-County politics that securing the long term future of the economy has finally taken centre stage. Sinn Fein believes that it is possible to have a dynamic enterprise driven economy that can be environmentally sustainable, that creates well paid employment, transcends the disparities in regional development and creates an economy that offers opportunities to all households, especially those in the neglected urban areas, the underdeveloped rural west and the disadvantaged border regions

Having considered the papers put forward to the Sub Group, as well as the presentations made and discussions held, Sinn Fein believes that there are a number of key areas that are integral to formulating a successful economic strategy. These are best addressed by first recognising the all-Ireland dimension, and then having an honest, realistic discussion around the core issues of infrastructural investment, tax and fiscal policies, educational challenges and the need to reform not just the work of the enterprise agencies but the parallel need to empower and develop a dynamic private and public sector in the region.

The All Ireland Dimension

A successful future for the Six-County economy can only happen in the context of an all-island strategy and the logic of this thinking from an economic perspective involves bringing this realism into a significant spectrum of areas including spatial planning, infrastructure, education, energy, taxation and public finance, the financial sector, research and development, the list could go on. These are all areas where the all-Ireland dimension is not a political agenda but a matter of common sense.

For example having two currencies on the island is an impediment to trade, a cost to consumers and business and serves only to enrich an already prosperous banking sector. Having control of monetary policy on an island wide basis offers flexibility and an opportunity to business and the overall economy that is immeasurable.

We can not plan an economy that is half in half out of an all island structure; it increases costs, squanders resources and ultimately means less jobs, lower wags and higher taxes. We can have an island economy that seeks to maximise the opportunities of East-West economic development and the surge of Irish investment in the British economy in recent years shows how quickly investment and development trends can change.

Infrastructural Investment

The lack of investment in roads, rail and air has been well documented, but there are also huge gaps in telecommunications, education and in securing a long term low cost, and environmentally responsive energy supply. The cost savings of doing this on an all-island basis are well documented, but what must be challenged is the profit-taking of existing energy producers, where creating an island market has not meant reduced costs for both household and business consumers.

Then there are the huge imbalances in how existing infrastructure has been developed on the island where in both the Six and 26 Counties huge swathes of society particularly in the West and North West have been neglected and discriminated against.

Moving forward we need an infrastructural strategy that compensates for the mistakes and discrimination of the past while planning a realistic way forward. We need to commit within reasonable time-frames for the eradication of social and economic disparities. There are no overnight solutions to these long- standing problems but we need to be thinking of realistic policy driven timescales..

Tax and Fiscal Policy

The relentless lobbying by a small but powerful section of the business community in the Six Counties has created a economic myth that the simple act of massive tax cuts will kick start the Six County economy. It won’t and indeed authoritive evidence during the various witness sessions has also contradicted this emerging orthodoxy. The economic evidence from the 26 Counties in the Ahead of the Curve document showed that a significant number of domestic firms simply pocketed the tax cuts, without increasing exports, output or R&D activity and there is no reason to believe that the same trend would not emerge here.

We need to move beyond the one size fits all tax policy into a more thoughtful goal based incentive driven strategy. We should say yes to goal driven tax incentives which increase R&D activity, aid new product and process innovation, enhance worker training and development, help our entrepreneurs break into new markets and aid environmental improvements. We should say no to tax giveaways.

An all Ireland tax regime would take away anomalies on VAT and there is also the question of local government financing arising out of the outworking of the RPA.

Educational and Research Challenges

Creating a more proactive R&D environment and radically reforming how we educate from pre-school to university are intrinsically linked It is no accident that throughout the island the inequalities in educational attainment, the high numbers of early school leavers, low literacy levels and the high proportion of untrained workers, some of the worst figures in the Organisation for Economic Co-operation and Development (OECD), are matched by the lowest level of R&D activity by firms in the OECD also.

Crafting a policy where no-one is excluded and every worker can return to learning is the first steps to a successful R&D strategy. Sinn Fein believes that the new 26-County R&D strategy has the potential to change the economic landscape on the island; we believe that the vital role envisaged for the public sector shows the potential for a dynamic proactive government in promoting enterprise. It is vital that this strategy is developed on an all-island basis and that real democratic control of the project is relinquished to the two legislative assemblies on the island.

Reform of the Enterprise Community

The elephant in the room throughout the work of the sub group has been the unacknowledged failure of Invest Northern Ireland, they have failed the rural west, the nationalist community and significant sections of unionism.

At the same time we are looking at the economic successes of the 26-Counties and seeking to mimic them without a real understanding of how to truly encourage entrepreneurship or acknowledging the short comings of an increasingly debt laden economy dependent on a prolonged construction boom, unable to control its exposure to international market forces such as the global political instability, rising oil prices and the slowing US economy.

Again the All-island dimension offers positive path forward, we can and must rebuild the enterprise agency community north and south on an island footing, fostering good best practices, creating democratic accountability and ending the years of waste and duplication, promoting real understanding of who are we building the island economy for.

Peace Dividend

Sinn Féin is of the view that there should be a substantial investment in the north of Ireland in order to redress the years of conflict, the years of infrastructural under-funding and to advance the equality agenda. Central to this is an all-island economic development strategy with north and south working to a common agenda, sharing resources and avoiding duplication. Twelve years after the IRA cessation, and eight years after the Good Friday Agreement was signed, we have still not seen a genuine peace dividend.

The Irish and British governments have already acknowledged the validity of the arguments about the need to invest in conflict resolution.

There is a clear responsibility to build the peace and tackle many of the causes and effects of the conflict. Sinn Fein believes that any incoming Executive should have a major Peace

Dividend so that local Ministers can deliver an agreed programme that puts stability and growth on the fast track.

There is significant scope for moving security expenditure into a major strategy that can underpin the transformation of our society.

We are proposing a £10 billion Peace Building Strategy over 10 years. This should be targeted at eradicating the regional socio and economic disparities that exist and to support the development of all-island strategies and synergies, particularly along the border corridor.

Economic Development Package

This should be allied with economic development packages that will 'jumpstart' the 6 county economy to make it self-sustaining. There is already a broad consensus around a set of proposals, which Sinn Féin believes will provide a framework to manage and sustain economic development.

1. Public expenditure commitments and funding increases over the next 10 years that will not fall below existing levels
2. Ring fencing the economic development allocation within the public expenditure estimates to enable the required resources to be available to create the additional 142,000 new jobs needed for the next 10 years
3. Additional funding and other mechanisms to be provided to enable the infrastructure deficit to be eradicated
4. Retention of Selective Financial Assistance (SFA) post 2006
5. Fiscal flexibility including the harmonisation of corporation tax on the island of Ireland.

Equality and the fair distribution of resources and wealth must be at the heart of any peace dividend and it must be directed towards those communities and areas that suffered most from the conflict. The structural problems of the economy are closely related to the political problems in the north. We are a society coming out of conflict, we are dealing with the legacy of economic colonialism and we are dealing with the current reality of partition and the resultant distortion of economic development on the island as a whole.

Social Democratic and Labour Party

SDLP

Economic Challenges Paper------------Date: 16th August 2006

Some SDLP attitudes and approaches

Should the opportunity arise to transform our economy and the infrastructure underpinning it some of the issues that we would wish to place on the agenda are listed below:

Reforming Government

- **Reshape the Programme for Government**, working with unions, business and the voluntary sector on a **new basis of real social partnership to agree a 5-year programme.**

- **Create a new model for strategic decision-making on major public investment projects,** broadening membership of the Strategic Investment Board to include unions and voluntary sector groups, extending the social partnership model to ensure longer-term, robust decisions as we originally proposed.

- **Reform the delivery of public services, creating opportunities for local ownership and delivery.** LSPs, Councils, voluntary bodies or new partnerships could be invited to bid for central government funds to deliver services locally, similar to EU funding models.

- Use the **Review of Public Administration** to:
- Restructure government, making it **more responsive, more accountable, decentralised, efficient and transparent**, spending less on bureaucracy and more on public services and better releasing the talent and potential of those in public sector employment.

- Deliver **equality of access to public services** of a consistently high standard, while increasing local flexibility in meeting those standards.

- Put **partnership** (see above) at the heart of reformed structures.

- **Spend less on government bureaucracy, more on front-line public services –** roads, nurses, school-books etc. The SDLP has proposals to introduce **permanent scrutiny of government performance** in meeting set targets, and **government spending** on departments running costs rather than on services. This is another reason that we need the Assembly back in action, improving **public accountability, transparency and efficiency** and doing so on a **permanent basis** rather than a one-off as proposed by other parties.

- **Legislate to require decentralisation** of government functions and agencies including at least **2000 jobs to towns across the North** within 5 years, including (but not exclusively) Derry, Strabane, Omagh, Newry & Downpatrick, targeting areas of high unemployment in the systematic promotion of balanced regional development. We propose a legislative route having reflected on the Accommodation Review which moved slowly under devolution and has not progressed under direct rule.

- **Use the leverage of government spending** – through the criteria for awarding government contracts – to achieve **equality and environmental targets** as well as **economic regeneration**.

Investing in public services & infrastructure

Below we set out proposals to address the historic under-investment by government and continual under-performance by departments. We need to do, not just more, but better. SDLP Goals:

- Use the reconfigured **Strategic Investment Board** (see above) to enhance the **professional expertise** available in considering funding options for all public-led investment projects and the **partnership basis** on which decisions are taken. The SIB to advise the Executive/Assembly on optimum funding mix and best financing solutions for the region's capital investment programme.
- **Release under-utilised public land and assets** and secure further release of **military bases** – another SDLP-led initiative gone awry under direct rule – to generate both **economic and social dividends** for the whole community. This would enable major investment and create thousands of jobs. Funds generated could be re-deployed into front-line services and to help community and voluntary groups become self-sustaining.
- **Establish new 'not-for-profit' models for investment** in, and development of, better **public services.** Income derived would form a new basis of civic dividend for more hard-pressed communities.
- Commission the economic research bodies North and South to work together to **produce proposals for further all-Ireland co-operation and development** in social and economic policy.

Regional Development

Water

THE SDLP IS AGAINST PRIVATISATION, AGAINST DOMESTIC METERING and AGAINST WATER CHARGES.

- Restore the transparent **link between rates and water**, for which the Barnett formula does not make provision.
- **Oppose** the proposal to turn the Water Service into a **Government-owned Company (GoCo)** as this would be a step towards privatisation.
- **Modernise the water service** and **improve water quality.**
- **Upgrade the sewage system** to meet modern environmental and EU standards.
- **Modernise and streamline the public procurement process** for all major capital and structural maintenance contracts to ensure more accountability and transparency, resulting in a better deal for the public.

Balanced regional development

Balanced regional development across the North requires targeted strategies to counter decades of uneven growth. SDLP Goals:

- Legislate to **require decentralisation of government functions and agencies** including at least **2000 jobs** to towns across the North **within 5 years**, targeting areas of high unemployment. This can enable regional towns and rural areas to derive benefits from government-led investment and help to stimulate private development. Decentralisation will also be key to addressing traffic congestion in the greater Belfast area.
- **Target areas** of under-developed infrastructure for enhanced support.

Energy

- Work to **reduce energy tariffs** for domestic and business customers.
- Accelerate the opening of an **all-Ireland energy market** to increase competition and reduce energy prices.
- **Build on existing 'not for profit' refinancing** initiatives such as the Moyle inter-connector to ownership of other major energy infrastructure thereby passing any cost savings directly to the consumer.
- **Extend the gas network** so that more customers can benefit from an alternative energy supply.
- **Promote renewable energy** sources including bio-mass, wind-power and hydro-electric power, particularly in areas beyond the reach of the natural gas network so that all areas can benefit from enhanced competition and choice.
- Continue to advocate recognition of Ireland, North and South, as a **European Energy Zone**, to assist us in reducing costs, meeting targets and improving planning.
- Further **promote energy efficiency** and increase the number of efficiency programmes particularly for the vulnerable and people living in fuel poverty.

Public Transport

- **Invest in Public Transport** enabling the Metro Service, Ulsterbus and Northern Ireland Railways to meet their Passenger Charter Standards and to deliver long-term growth in public transport.
- Secure major capital **investment for the Belfast-Derry rail line** to make certain the line remains open for future generations.
- Agree **all-Ireland scheme for free travel** for people of pensionable age, through mutual recognition of identification, to boost tourism as well as increasing cohesion of rights and benefits island-wide.
- **Extend the children's half price travel scheme** to 16-18 year-olds in full time education.

Air

- Develop an **aviation strategy** for Northern Ireland.
- Guarantee **air access to Heathrow** airport from Northern Ireland.

Infrastructure and Roads

- Create a **new all-Ireland transport and infrastructure body** and produce a strategic development framework for economic corridors, Trans European Networks (TEN's) and air and sea ports.
- Secure funding to **upgrade key TEN's**.
- Secure adequate strategic **investment for the Regional Transport Strategy** and the three associated sub-plans
- Expand **Rural Transport** initiatives, particularly 'demand responsive' services such as community taxis and 'rural rover' bus services.

Planning

A strategic, coordinated, design-led system is required as a basis for economic growth and social development. The planning system requires wholesale reform. Policy must centre on sustainable development, balancing respect for the environment with the needs of communities living on the land. It should not unduly inhibit the diversification and development of rural businesses.

Some SDLP Goals:

- **Strengthen and clarify the policy framework** within which decisions are made. This can reduce ambiguity about the types of developments that will be permitted.
- **Streamline the process** with a target to **reduce by half the overall time** taken for decisions.
- **Within the context of a reformed and streamlined system**, improve public consultation at an earlier stage to minimise formal disputes later and introduce a right of **third party appeal** for bona fide cases.
- **Improve enforcement** of planning decisions and increase penalties for breach.

Job Creation, Growth & Competitiveness

Direct rule has resulted in a period of lost opportunity for our economy. While there are now more people in employee jobs than ever on record[1], our economy remains too heavily reliant on public sector employment. Recent years have seen major job losses in manufacturing, rising business costs and increasing global competition.

Central to the success and stability of the economy in the South in recent decades, has been the social partnership model. This has enabled competitiveness, overseen structural change and ensured sustained growth through agreed investment priorities, industrial relations stability and skills development. The SDLP wants to get devolution back so that we can establish a similar model and generate sustained growth across the North, creating well-paid and sustainable jobs for people from all backgrounds. Our strategy is designed to build competitiveness first and promote social inclusion and tackle poverty through economic growth as well as social measures.

Small businesses are at the heart of our communities. We are committed to building an enterprise economy, rewarding risk-taking, supporting business growth & addressing costs. The SDLP commends the work of local Enterprise agencies in this task and will work with Enterprise NI to widen and strengthen the process of business start-ups.

The creation of an all-island economy is an essential SDLP objective and would bring major benefits North and South. We need co-ordinated strategies on transportation infrastructure, energy and telecommunications as quickly as possible. We will bring forward policies to generate all-Ireland trade by encouraging the development of new business alliances throughout the island. These will take the form of supplier clusters and new business co-operation agreements. Meanwhile, our efforts will continue to correct the competitive disadvantage in the North due to higher corporation tax and fuel costs than in the South.

The SDLP has always argued that peace, partnership and prosperity go hand in hand. We have brought this message across the world to bring jobs and support programmes home. We have worked with local companies to help expand their businesses to create jobs and compete in EU and wider markets. This is why the SDLP is stronger on the economy.

SDLP Goals:

- Set **targets** for economic growth, job-creation and all-Ireland business co-operation and resource a proper strategy to achieve this.
- Create a new **"Enterprise Growth Fund"** comprising a loan fund and equity fund to work together to **increase the number of business start-ups, promote social economy enterprises** and also to enhance the all-island business co-operation model. The Fund should build on the successful Enterprise Ireland model.
- Extend the 'Aspire' **micro-loan initiative** across the North complimenting a new enterprise growth fund.

[1]DETI News Release 16 March 2005

- Work with the Enterprise Agencies to increase the measures to enable those with sound business ideas from **low-income backgrounds**, to become **self-employed**.
- **Support business growth**, seeking **new tax relief and rate relief** on an offset basis against spending on Research & Development, training and marketing and cross-border business development initiatives.
- **Continue to oppose the end of industrial de-rating** in the present economic climate. We argued when proposals were launched, that there should be no curb on the exemption unless a menu of reliefs was developed – this has not happened and moreover, economic pressures have increased.
- **Release under-utilised public land and assets** and secure further release of **military bases** to generate both economic and social dividends for the whole community.
- Facilitate **development of 'clusters' of companies** that can derive mutual economic benefit from co-operation and networking **locally** and on an **all-island** basis.
- **Equip small and medium-sized local firms & social economy enterprises** to compete for **major public contracts** working in co-operation to derive widespread economic benefit from public investment. This requires a pro-active approach that gives necessary support and information.
- **Support the Tourism industry** as a key growth sector for development. In addition to the transportation upgrade referred to elsewhere, improvements are required in access routes to the North as well as staff training and marketing. A comprehensive inter-departmental development strategy is required for the industry.
- Target **investment in high-unemployment areas.**
- Build on the work of the Business Alliance, establishing a new **All-Ireland Research Alliance,** based on the successful Georgia Research Alliance, to work with colleges and other institutions to operate a 'mix and match' service with businesses, maximising the economic potential of new research as quickly as possible.
- Agree an **all-Ireland marketing co-operation and investment strategy** to maximise sales overseas and incentives for investors.
- Dismantle the **barriers to labour mobility** including mutual recognition of qualifications and social security matters.
- **Work to reduce energy costs** including accelerating the opening of the **all-Ireland energy market**. [see section on Regional Development]
- Run a promotional campaign to **encourage businesses to operate in Euro** as well as Sterling and **encourage government departments** to make arrangements to **make and accept payments in Euro.**
- Campaign for entry to the **Euro**.

See also sections on Workers & Skills; All-ireland Development; Regional Development & the Environment.

Employability and Tackling Unemployment

- **Deliver programmes** that address the **skills of the unemployed** and **economically inactive**.
- Build on the work of the **Taskforce on Employability and Long Term Unemployment** with further innovative measures to **help people overcome the barriers to employment**.

Adult Literacy & Numeracy

- Implement the **Essential Skills Strategy** in full.

Further Education

- **Enable and properly fund FE colleges** to enhance school pupils' educational experience through authentic, robust technical and vocational training.
- **Support the FE Review** through a fundamental **overhaul of college funding mechanisms** to enable colleges to meet the needs of their local areas.
- **Develop strong links with colleges throughout Ireland**, learning from their successful experience of redevelopment.
- **Enhance partnership among colleges, businesses, community** and voluntary sector groups to promote social inclusion and economic development.

Higher Education

- Increase resources by **encouraging links with business for Research & Development.**
- Build on the work of the Business Alliance by establishing a new **All-Ireland Research Alliance** based on the Georgia Research Alliance to work with colleges and other institutions to operate a 'mix and match' service with businesses, maximising the economic potential of new research as quickly as possible.
- Encourage the higher education system and business to maximise applications for the **European Research Area** and in the **European Research Framework Programme**. Increased investment in technology is crucial for our economic future.
- Compile a comprehensive **database of all training provision** to be made available to local training and employment agencies, schools and colleges.

Economic Challenges report for the Assembly

SDLP Comments ------- (Margaret Ritchie MLA: Dr. Alasdair McDonnell M.P. MLA)

The SDLP believes that the Government, the Public Sector, The Private Sector, Trade Unions, Voluntary Sector and Public Representatives in N.Ireland should combine in a working partnership to fully exploit the whole of the economic potential that exists here. We believe that a strong and growing economy is essential to produce the added value and the tax revenues required to fund the Educational, Health Care and Social programmes that we believe are essential to underpin a just and fair society.

We believe that a coherent, transparent, agreed Strategy or Development Plan is essential to meaningful Economic Advance. We are concerned that our Economic Strategy can at times appear muddled and be impossible to comprehend. We believe that there should be an open and unambiguous strategy towards retaining as much as possible of the "old " industries like Agriculture, Fishing and food production. We believe that we must unconditionally embrace the New Hi-tec industries that bring higher wages and that we must ensure the education and training programmes necessary to underpin these opportunities

SDLP MLA.s have been delighted to have had the opportunity to participate in the Economic sub Group of the Assembly because of the vast amount of valuable evidence presented to us and the satisfaction that we felt at being involved in such vital business as well as being able to agree so much of the possible solution with colleagues from other Political Parties.

We would like to make some specific points, which cover some aspects of our concerns.

1 To ensure that our report gets the credit it deserves, we need to as far as humanly possible achieve a consensus approach on the report;

2 There is a desperate need for political stability;
And an end to all (destabilising) paramilitary activity, criminality and sectarianism.

3 There is a need to recommend a new strategic vision for the economy encompassing;

-Economic development initiatives,

-Education and training initiatives and policies,

-Urban and rural regeneration;

-Support for indigenous industries;

-Effective initiatives to support Foreign Direct Investment and the need to look at regional variations and particularly those areas in the south east and west where there has been a dearth of investment, and perhaps private sector investment for years.

-We need to look at the measurement or the means to assess the economically inactive.

-There is a growing need to develop a transparent economic strategy – out of which will develop an entrepreneurial spirit. Eg – Kilkeel initiatives.

4 There is a need for greater focus, amongst others, on the following issues:-

- Increased focus and investment in research and development in companies to promote innovation, creativity, efficiency and profitability
  Significant need for a more focused enquiry to assess what further contribution the Universities can make to our economy and what it would take to shift the focus within Universities from academic research to applied / commercial useful research.

- Ensure that our colleges of education have a much greater connectivity with the commercial/business/industrial and manufacturing world, in terms of training a future workforce and developing the necessary skills and knowledge base required for a high value added, high wage Economy.

- Promote, encourage and reward enterprise; promote economic growth

- Pump-prime the private sector, but not at the expense of the public sector. We don't believe that the public sector is necessarily too big, we believe that if the private is grown to a reasonable size that a substantial public sector will be necessary to complement it.

- We need to watch out for the pit-falls in that private sector investment can be mobile (displacement factor) and move to Eastern Europe or elsewhere.

- Should not be an over-dependence on the private sector.

- Ensure our people have the right skills for future employment opportunities.

- This may mean carrying our further analysis into the level of skills that exist; the skills deficit and introducing apprenticeship in skills based jobs at 15 Years old?.

Infrastructure

- Ensure we have a modern infrastructure in place to support business
  Encompassing a sound roads infrastructure with an adequate structural roads maintenance budget and a well-developed public transportation system. Need to ensure that bureaucratic delays in the planning system are eradicated and that planning applications for businesses and industrial complexes are fast-tracked.

All Island Economy

- North/south economic co-operation must be expanded for the sole purpose of bringing Economic wealth to both North and South. There is a great need to create an all island economy – the clustering of firms and industries working together in consortia and partnerships to increase local sourcing and establish networks that enable the island as a whole to significantly raise its performance in the global marketplace and where at all possible gain competitive advantage.

- Harmonisation of fuel duties; reduction in corporation tax;
  Economic zones (particularly in border areas where there has been a dearth of investment and employment opportunities).

- On all the All-Island Economy we would like to refer you to our North/South Makes Sense Document
- Our aim would be to develop a north/south strategy to maximise every opportunity.
- Challenge should be to bring forward an economic strategy which Facilitates economic growth; makes us more competitive; makes provision for north/south economic co-operation.
- Should there be one agency promoting and delivering economic matters – similar to the IDA in the Republic of Ireland? There may be political issues here but we should have the vision and political maturity to deal with them.

ends

The Ingredients of an Economic Peace Dividend: an SDLP paper for consideration

The SDLP believes the unique circumstances and history of Northern Ireland merit particular consideration and support in terms of rebuilding our society and our economy. With the budget heavily skewed towards security spending over several decades, our economy is suffering both the direct consequences of the conflict and the indirect consequences of the infrastructure deficit, amongst other challenges.

The focus of these proposals is on levering additional support and ‘head-room’ from the Treasury to enable significant capital investment in hard and soft infrastructure whilst protecting our hard-pressed householders and businesses from undue additional costs and protecting our capacity to maintain and enhance public service delivery, on which our future also depends.

This paper does not constitute an exhaustive or final list of the issues we would like to address. We believe, in any case, that the sub-committee must not just focus on agreeing the priorities of the parties but, more importantly work on the development of an agreed approach and negotiating position to secure the best possible response from the Treasury. We need to address the possible counter-arguments the Treasury might put to our proposals, the ‘strings’ that might come with any deal. We need, for example to ensure that we retain discretion and retention on assets sales so that such details do not negate any potential benefits offered.

The SDLP acknowledges the point made by successive direct-rule Ministers about the need to rebalance our economy – it is a point made regularly by the parties in Northern Ireland and the social partners. We also believe, however, that this can only happen in the context of positive investment in the growth of the private sector, not by means of an attack on the public sector.

We are seeking long-term strategic capital investment even if the funds are ring-fenced for such purposes. We are also seeking the fiscal latitude to adjust taxes affecting our competitiveness and inhibiting the growth of our private sector. If government is serious about promoting growth, they must also be serious about tackling the barriers to growth enabling us to protect and nurture that growth.

While there are now more people in employee jobs than ever on record, our economy remains too heavily reliant on public sector employment. Recent years have seen major job losses in manufacturing, rising business costs and increasing global competition.

The SDLP wants to see investment in R&D and in promoting a culture of entrepreneurship. Investment is also required to address the barriers to business growth and to incentivise innovation and competition.

We must also tackle poverty and disadvantage. Deprivation indicators highlight the range of challenges facing our community and the imbalance in opportunities across the North. With a dispersed, rural population we inevitably face higher unit costs for public services for example. The SDLP believes that equality of opportunity requires investment as of right, although it yields economic and social dividends that far outweigh such investment.

With significant investment in our infrastructure and in our people and a step-change in levels of co-operation with the Republic, our nearest and highly successful neighbour, we believe we can grow a prosperous economy and an inclusive society.

Infrastructure and balanced regional development

- **Major investment in roads, rail and public transport across the North, targeting areas** of under-development to deliver long-term growth in public transport, particularly in disadvantaged areas, rural areas and congested urban centres.
- Secure major and co-ordinated investment in the **North-South rail network** particularly the Dublin/Belfast and Belfast/Derry rail routes with extensions to the Donegal and North West corridor, extending and integrating the transport services offered, to increase viability and sustainability.
- Create an **all-Ireland transport and infrastructure body** to produce a strategic development framework for the island, networking air and sea ports and economic corridors and co-ordinating key projects such as the construction of TENS .
- Integrate the **National Spatial Strategy and the Regional Development Strategy**, building on the work of the newly established International Centre for Local and Regional Development, the result of a North-South-US partnership. It is vitally important that both governments **invest the required resources** to implement the recommendations of the ICLRD Report in order to co-ordinate and support the creation of sustainable and balanced economic, commercial and employment opportunities.
- **Investment to implement the Regional Transportation Strategy** and the three associated sub-plans
- **Further invest in renewable energy** to make Northern Ireland a global leader in green energy and support research to bring to commercial viability potential sources such as hydro-electric power, so that all areas can benefit from enhanced competition, choice and security of supply.
- Extend energy efficiency programmes and support measures to **eradicate fuel poverty**.
- **Make good the under-investment in water and sewerage infrastructure** over several decades and to meet modern environmental and EU standards. Northern Ireland householders should not be asked to pay for decades of under-investment on top of service charges.

Creating jobs

- **Introduce tax relief and rate relief** on an offset basis against spending on **Research & Development, training and marketing** and **cross-border business development** initiatives.
- Create a new "**Enterprise Growth Fund**" comprising a loan fund and equity fund to work together to **increase the number of business start-ups, promote social economy enterprises** and also to enhance the all-island business co-operation model. The Fund should build on the successful Enterprise Ireland model.

- Establish a **menu of reliefs** for businesses facing the end of **industrial de-rating**. We must acknowledge the impact on manufacturing of high energy costs and increasing global economic competition added to the particular demands of certain businesses in terms of high energy usage or spatial requirements.
- **Invest in a North-South strategy** to maximise overseas investment, building on the success of recent trade mission to India.
- **Implement the IBEC-CBI Joint Business Council's 20 Key Actions for economic co-operation and international competitiveness**.
- Establish an **all-Ireland research fund** to develop capacity in target sectors and help maximise the commercial potential of research as quickly as possible. The Georgia Research Alliance model in the US should be adapted for this purpose, linking HE institutions with business to provide a 'mix-and-match' service.
- Release under-utilised public land and assets and secure further release of **military bases** to generate both economic and social dividends for the whole community.
- **Invest in the Tourism industry** as a key growth sector for development. In addition to the transportation upgrade referred to elsewhere, improvements are required in access routes to the North as well as staff training and marketing.
- **Enable and properly fund FE colleges** to enhance school pupils' educational experience through authentic, robust technical and vocational training.
- Create a number of **all-Ireland funds**:
  - **Strategic Capital Funds**: to support infrastructure and capital spending. Each jurisdiction would contribute to dedicated North-South funds for part of such spending, taking account of regional imbalance. The funds would be deployed through joint planning & spending to achieve shared benefits.
  - **Services, Community & Enterprise Funds**: to fund programmes and services rather than capital investment and to help counter the fall-off in EU funding. They could further provide enterprise support through appropriate measures on both a sub-regional and national basis.
  - **Common Fiscal Platform**: created through fiscal latitude, e.g. corporation tax (see below), tax concessions. These could be applied to particular geographic areas or economic sectors (e.g. for companies straddling the border, a facility to nominate one administration to deal with). Northern Ireland needs to have the fiscal latitude to adjust taxes affecting our competitiveness and inhibiting the growth of the private sector.
  - **Create a single all-Ireland corporation tax regime at 12.5%** - such an investment in our economy would pay for itself in returns to the Treasury within 10 years.
- Establish **British-Irish funds**, open to the different administrations on the island to enable them to come together to promote innovation and support pilot-projects.

'Soft Infrastructure' and barriers to growth

- **Capital investment in health and education** is essential is in the interests of the economy and overdue, again, as a consequence of the conflict.

- With growing waiting lists for **public or social housing**, rapidly diminishing stock and severe pressures on **first-time buyers**, there is a need for a major investment in social housing programmes, targeted at areas with particular shortages. Housing policy has, of course, major workforce implications.
- **Develop accessible and affordable childcare and support integrated early years care** incorporating the full range of services including breakfast clubs, educational provision, child care and after school clubs, family support services, health care and more.
- **Enhance quality and availability of programmes** that address the **skills of the unemployed** and **economically inactive** and build on the work of the **Taskforce on Employability and Long Term Unemployment**.
- Secure **additional financial support to widen access** to education, targeting families on lower incomes.
- Dedicate **specific extra funding for mature students, students with disabilities & students with dependants**.

SDLP, August 2006

Ulster Unionist Party Assembly Group

Ulster Unionist Party Presentation

By David McNarry MLA

To The Economic Sub-Group of the Preparation For Government Committee

As a party for the union, which has served and given Leadership to our country for over 100 years.

We recognise the importance of a vibrant economy not only for stakeholders and investors but also to those benefiting from full employment prosperity.

We are grateful to and appreciative of all those who have assisted this Sub-Group with written and oral evidence.

We recognise the overwhelming opinion emanating from those involved in the private sector who clearly signalled the necessity for political stability.

Endorsing those opinions and in character with our continuing demands for an equitable partnership between a devolved assembly and civic society.

We would contend that in order for lasting stability to be first attained and then sustained. All elected parties have an obligation to publicly state their unequivocal support for the PSNI and all other crown agencies operating with the approval of Her Majesty's Government to uphold law and order in our country.

Without that publicly stated support then a Party is only making a mockery of the efforts being made here to improve our local economy.

However with that publicly stated support then the Assembly can send a positive and welcome signal. That we as elected representatives are giving sound Leadership as part but a significant part of our contribution to encourage and renew confidence in both internal and external investment.

1. **In terms of impediments to the development of the economy in Northern Ireland.**

   - The UUP shares the view widely expressed by Northern Ireland businesses and their representative organisations that the structural weaknesses of the Northern I economy have been correctly identified in the four 'drivers' indicated in the four 'drivers' indicated in DETI's Economic Vision. We would particularly emphasise the 'skills gap' and low R & D spend in Northern Ireland.

- The nature and extend of the ‘skills gap’ must be a matter of grave concern. The submissions to the Sub-Group from diverse businesses and sectors almost uniformly made reference to a growing skills deficit in the labour market. Alongside this, is the fact that unacceptable numbers of our schools leavers’ posses pool literacy and numeracy skills.
- Northern Ireland’s poor record of R & D investment is comparison to the rest of the UK is of even greater significance when it is considered that the UK level is merely average for the EU. The low lever of university/business collaboration in R & D – less than 50% of the UK average – particularly contributes to the Northern Ireland weakness in this regards.
- The UUP notes that, in common with some other UK regions, the public sector’s role as both an employer and a key economic player is not unusual. Nor is the Treasury subvention in relation to Northern Ireland tax revenues an anomaly within the UK. Shrinking the public sector should not be the aim of economic policy – growing the private sector should be.

2. **In considering the fiscal incentives that may promote Form Direct Investment and indigenous investment.**

- We believe it is important to note that a focus on purely fiscal incentives should not entirely dominate debate and discussion on the future of the Northern Ireland economy. A number of commentators have indicated that, for example, Republic of Irelands corporation tax level has not been the only significant driver in the Republic of Irelands recent economic success. (An education system rated 3rd in the world by the World Economic Forum, high levels of R & D investment and EU infrastructure investment have all substantially contributed to that economic success).
- That said, it is widely recognised that in a competitive global market, the level of corporation tax does impact on the ability to attach investment. The Treasury should examine the economic potential of lower corporation tax rates for Northern Ireland.
- A competitive tax regime is essential for the Northern Ireland economy. While recognising that most issues of taxation are a reserved matter, the UUP believe that there is the potential for a devolved administration to act with regards to aspects of the tax burden on businesses. With existing and potential SME’s being fundamental to our regional economy, a Small Business Rate Relief scheme – similar to that operating in Scotland - should be introduced to Northern Ireland. A Northern Ireland Administration should also commit to capping industrial rates at 25%.
- The Tresurary should adopt a more innovative approach to various taxes impacting businesses in Northern Ireland. With avoidance of the excise duty in fuel potentially costing the Treasury £380m p.a. there is a very strong case for altering the level of duty. The uptake of the R & D tax credit has been poor. More generous incentives, a streamlined system, and better engagement by government agencies with (in particular) SME’s regarding the tax credits should all be considered.

- Public procurement procedures, particularly with reference to Investment Strategy Northern Ireland should seek to maximise the opportunities for and support the development of indigenous enterprises.

3. **Regarding how other matters, including an economic package/peace dividend, could contribute to economic regeneration and how this might be delivered.**

We would comment as follows:

- The well-recognised infrastructure deficit – the road network and public transport network – in Northern Ireland has been widely recognised as a barrier to economic growth. Addressing this deficit should be the priority of an economic package.
- The energy costs faced by Northern Ireland businesses continue to be a barrier to growth. The Carbon Trust has estimated the potential savings to Northern Ireland business of investment in energy conservation measures and technologies to be £15m p. a, with a total implementation cost of £36m. There is a strong argument – on both business and environmental grounds – for such measures to be included in an economic package.
- The absence of a strategy for Northern Ireland's manufacturing sector is in stark contrast with the strategies developed in both Scotland and Wales. Such a strategy would signal that a Northern Ireland Administration was committed to be the manufacturing sector being a powerhouse of a knowledge-driven regional economy.
- The emerging skill deficit – both in terms of basic and specialist skills – must be addressed by a partnership of government, schools, colleges, universities, employers and trade unions. Although while a broad agenda, some initial actions can be indicated. Focussed investment in primary schools to ensure that a firm foundation is laid for basis skills in literacy and numeracy, a new approach to careers guidance in post-primary schools, creating a post in DENI with a individual to take overall responsibility for driving improvement in science education (as recommended by the Campaign for Science and Engineering in the UK), raising the (MaSN) cap with regards to economically significant degree courses in the sciences and engineering and supporting apprenticeship initiatives such as that jointly proposed by the Construction Employers Federation and the trade unions.
- Why not create a Knowledge Bank – similar to that in Wales – to provide tailored, focussed and unified support mechanism for businesses with the potential to be high growth. Bringing together small, innovative firms with researchers, universities, venture capitalists and other business partners, a knowledge bank would aid in technology transfer, inward investment and marketing.
- Let us also consider incentives – such as enterprise zones – and networks facilitating the emergence of high-growth industry 'clusters'. Such clusters have proven to be engines for the growth of knowledge-based regional economies.
- On current news sadly recent events in Newry and Dungannon added to that of our Party colleague Lord Ballyedmond are grim reminders of what our economy endured for over 3 decades. As then, it is today not acceptable to say there is no support for terrorist acts – when was it ever right to support terrorism.

- To end on a positive note – can I say how struck I have been with those we have met during our deliberations their condor, there optimism, their enthusiasm and I think above all their intention that Northern Ireland can do a lot better for itself in improving its economy.
- I believe that was their underlying message to this sub-group – if you like – clear the way for stability – and confidence building – work out a partnership between a devolved government and a dedicated business agenda and Northern Ireland can and will compete and punch its weight

Ulster Unionists Party

Herewith - explanation of UUP detail on 'Knowledge Bank' wish to have this included in final draft report for Thursday as a recommendation. Also, please include as another recommendation creating a dedicated post in DENI for a person to take overall responsibility for driving improvement in science education.

In its strategic framework for economic development - Wales: A Vibrant Economy - the Welsh Assembly Government indicated its priority of raising the quality of jobs available in the Welsh economy. To this end, the strategic framework contained a commitment to create a 'Knowledge Bank for Business' with the aim of "attracting more high value-added functions to Wales and supporting businesses and sectors with growth potential". (The Knowledge Bank was amongst the Welsh Assembly Government's top-ten manifesto commitments.)

The purpose of the Knowledge Bank is to offer a unified finance service for innovators, providing a focused, unified support delivery mechanism for business in all of Wales. The aim is to increase the innovative capacity of industry and businesses, and the sustainability of innovating firms and individuals as profit making enterprises by bringing together entrepreneurs, inventors, financial services, the science base, technology transfer processes, venture capitalists, higher and further education interaction with business and business support infrastructures.

The Knowledge Bank is initially working with 50 high-growth companies across Wales, providing consultantcy advice, finance and training to support these companies in fulfilling their future growth potential. Each company is provided with a Commerical Manager, acting as a single point of contact with responsibility for ensuring the company can access resources and expertise from across the public and private sectors.

A budget allocation of £13.5m has been given to the Knowledge Bank for 2005/06 - 2007/08. By 2007 it is envisaged that between 100 and 150 companies will be supported by the Knowledge Bank.

Appendix 4

Section 5: Research Papers

John Bradley – Working Paper 22

AN ISLAND ECONOMY OR ISLAND ECONOMIES? IRELAND AFTER THE BELFAST AGREEMENT

John Bradley

WORKING PAPER 22

AN ISLAND ECONOMY OR ISLAND ECONOMIES?
IRELAND AFTER THE BELFAST AGREEMENT

John Bradley

Mapping Frontiers, Plotting Pathways
Working Paper No. 22, 2006

(also printed as
IBIS working paper no. 72)

Institute for British-Irish Studies
Geary Institute for the Social Sciences
University College Dublin

Institute of Governance
Centre for International Borders Research
Queen's University Belfast

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ABSTRACT

AN ISLAND ECONOMY OR ISLAND ECONOMIES?
IRELAND AFTER THE BELFAST AGREEMENT

This paper examines economic progress in the island of Ireland in the context of its modern history, but with particular emphasis on the post cease-fire and post Belfast Agreement period, inquiring whether or not policy makers and businesses on the island have been able to build a more robust economy, benefiting from cross-border synergies as civil conflict faded into the background. In what way has an “island” economy emerged in the aftermath of internal Northern Ireland conflict, in the sense envisaged by business leaders such as Sir George Quigley and Liam Connellan in the early 1990s? In the absence of a strong “island” focus for the economies of North and South, are the two regions of the island likely to drift further apart and relate to the newly enlarged EU market in different ways? If an island economy does not emerge, has Northern Ireland any future other than as a lagging region of the UK? On the other hand, can Ireland sustain its role as an EU success story in the face of increasing competition from the new member states and from Asia?

Publication information

Paper produced as part of the programme *Mapping frontiers, plotting pathways: routes to North-South cooperation in a divided island*. The programme is funded by the Special EU Programmes Body through the Higher Education Authority over the period 2004-06.

BIOGRAPHICAL INFORMATION

John Bradley was formerly a Professor at the Economic and Social Research Institute in Dublin, and now works as an economic development consultant. His published research explores the impact of the single European market, structural funds, and economic and monetary union on the less developed peripheral states and regions of the European Union as well as the transition of former COMECON countries to EU membership. He has carried out a wide range of international consultancy assignments for the Irish and other governments, the European Commission and other international organizations.

AN ISLAND ECONOMY OR ISLAND ECONOMIES? IRELAND AFTER THE BELFAST AGREEMENT

John Bradley

1. INTRODUCTION

There were three main motivations for this paper. First, a recently compiled set of manufacturing data for the Republic and Northern Ireland covering the 1990s came up with interesting patterns of North-South behaviour that require interpretation (InterTradeIreland, 2003). Second, in attempting such an interpretation, one is aware of the tensions that exist between the two separate areas of economic and business research. Of particular interest is strategic policy design that is relevant to the development and modernization of small open economies and regions such as the Republic and Northern Ireland, where the primary focus is on the important area of industrial policy. Finally, Tannam (2005) has pointed to the paradox of the failure of the neo-functionalism hypothesis of common cross-border economic interests, and this may have links to the economic and business analysis.

In a global economy, with no barriers to the movement of goods, factors of production or capital, small nations and regions are forced to specialize, since they cannot efficiently support a very wide range of different industries (Stigler, 1951). During the nineteenth century, the area that is now Northern Ireland came to specialize mainly in textiles and clothing, ship-building and light engineering.[1] The area that is now the Republic had radically different areas of specialization, almost entirely in agricultural production and associated basic food processing. In the case of Northern Ireland, manufacturing in the region experienced difficulty in diversifying during the twentieth century and still retains a relatively high concentration in sectors like textiles and clothing. However, in the case of the Republic there was a dramatic switch after the 1960s away from the weak, traditional industries that had been fostered behind protective tariff barriers from 1930 to 1960 and towards modern high-technology sectors such as computers, software, pharmaceuticals and chemicals.

Today, both regions of the island of Ireland have a relatively narrow portfolio of sectoral specialization: Northern Ireland to a large extent in mature or declining sectors, the Republic in a range of modern sectors (or, rather, in specific products within such sectors) that are, however, rapidly moving towards maturity and could conceivably soon enter their decline phase. Thus, the perspective provided by industrial strategy frameworks such as Vernon's product life cycle, Porter's diamond of competitive advantage or Best's productivity triad has implications for the economy of the whole island of Ireland that complement the more conventional economic aspects of international cost competitiveness (Vernon, 1966, 1979; Porter,

[1] For explanations of the late nineteenth century sectoral specialization in Ireland, see Ó Gráda, 1994.

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1990; Best, 2001). The same may hold for the design of industrial policy in many of the smaller newly liberalized economies of Central and Eastern Europe and for some of the smaller Asian economies (Bradley, 2000b: 22-26).

We can characterize the key challenge of policy making in any small nation or region as that of blending the techniques and insights of the *economic* analysis of what one might call the "outer" business environment with those of the *business* analysis of the middle ground of strategy. These two areas are often studied in isolation from each other by non-overlapping groups of researchers.[2] When cross references are made between the two areas of research, each separate group tends to focus on the inadequacies of the other's methodology.[3] Seldom if ever are the two different perspectives looked at as being entirely complementary and mutually supportive.

The paper is organized as follows. In section 2 we set the context for the present state of the two economies on this island in terms of their previous histories. Our focus is on the manufacturing sector, in particular, since this can be regarded as the "engine" of growth. Section 3 explores the implications of some of the most commonly used industrial strategy frameworks for the island economies, as policy makers in Northern Ireland attempt to address an imbalance in the regional portfolio of businesses caused by declining sectors, and as policy makers in the Republic face up to the likelihood of a rapid onset of maturity and decline of the computer and software sector. The wider challenges faced by policy makers in small peripheral regional economies in competing to attract replacement for maturing sectors are examined, and suggestions made about the role of all-island policy cooperation. Section 4 concludes with a reflection on the island economy of the future.

2. THE HISTORICAL ISLAND CONTEXT

After partition in 1920, the island of Ireland was a striking example of highly uneven industrial development. The south was poor and overwhelmingly agricultural. By contrast, the north—in particular the north-east region centred on Belfast—was heavily industrialized and relatively prosperous. The sectoral distribution of total employment, north and south, in the year 1926 is shown in table 1.

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[2] Economists tend to be the worst offenders, and seldom if ever can bring themselves to acknowledge the existence of the contributions of, say, Vernon and Porter. However, only in his most recent work has Porter acknowledged the economic research on spatial issues and clustering by Krugman and others, and even then inadequately (Porter, 1998). Kay, 1991, is an attempt to synthesize.

[3] Business researchers tend to disparage as irrelevant the older approaches to trade and growth theory and to ignore the major advances that have been made in recent decades. Economists tend to criticize the lack of formal testing of the validity of business frameworks (Kay, 1983).

Table 1: Sectoral employment, Northern Ireland and Irish Free State, 1926

	Agriculture	Industry	(of which manufacturing)	Services
Irish Free State	54	13	(7)	33
Northern Ireland	29	34	(29)	37

Note: figures refer to percentage distribution by sector.

Source: Munck (1993)

Manufacturing employment in the Irish Free State in 1926 accounted for 7.2% of overall employment and only 13.3% of total employment was in the broader classification of industry (consisting of manufacturing, building and construction and utilities). In contrast, the share of manufacturing employment in Northern Ireland in 1926 was over four times that of the Irish Free State.

The initial state of manufacturing on the island can be examined using data starting from the 1924 census of production for Northern Ireland and data from the 1926 census of industrial production for the Irish Free State, the first such data available (table 2). Such comparisons confirm the dramatic difference between the two regions and serve to establish the full extent that the Irish Free State had to evolve if it was to converge towards the higher level of industrialization and economic welfare of Northern Ireland.

Immediately after independence in 1922, the manufacturing sector in the Irish Free State was not only a tiny part of the total economy, but was almost completely concentrated in the food processing area. Northern Ireland, on the other hand, had three areas of concentration: textiles and clothing, as well as transport equipment (shipbuilding, engineering and metal), which were relatively modern capital intensive sectors; and a less modern food processing sector. Very little fundamental sectoral change took place during the following decade, although the northern textiles and clothing sector declined somewhat, and there was modest growth in a range of other sectors in the Irish Free State.

2.1 Industrial and trade policy in the South[4]

Inward orientation: 1932-60. From the early 1930s to the late 1950s high tariff barriers and a strict prohibition on foreign ownership of firms operating in the Republic were the cornerstone of policies designed to promote growth of indigenous manufacturing from the very low base shown in tables 1 and 2 above. The high tariffs succeeded in stimulating growth in local manufacturing but by the late 1950s it was clear that protectionism had long outlived its usefulness and that few of the so-called infant industries had matured and become sufficiently competitive to generate much by way of exports.

[4] The material in this section draws selectively from material contained in Bradley (1996); Barry and Bradley (1997); Bradley (2000a).

Table 2: Output in manufacturing, Northern Ireland and the Irish Free State

Sector	1924 £000	Share %	1930 £000	Share %	1935 £000	Share %
Northern Ireland						
Textiles & clothing	32,758	54.1	21,105	41.3	22,466	43.1
Food, drink, tobacco	15,036	24.9	13,876	27.1	16,146	31.0
Boot, shoe and apparel	2,944	4.9	3,458	6.8	2,934	5.6
Shipbuilding, engineering, metal	6,540	10.8	9,601	18.8	7,649	14.7
Paper and printing etc	1,690	2.8	1,656	3.2	1,486	2.8
Timber	761	1.3	699	1.4	761	1.5
Miscellaneous	769	1.3	718	1.4	704	1.4
Total manufacturing	60,498	100.0	51,113	100.0	52,146	100.0
Irish Free State						
Textiles & clothing	1,179	2.4	966	2.2	2,146	3.2
Food, drink, tobacco	38,850	79.3	33,320	76.2	43,398	65.5
Boot, shoe and apparel	1,523	3.1	1,990	4.5	5,607	8.5
Shipbuilding, engineering, metal	1,543	3.1	1,838	4.2	5,283	8.0
Paper, printing etc	1,917	3.9	2,098	4.8	2,947	4.5
Timber	1,347	2.7	1,472	3.4	2,395	3.6
Miscellaneous	2,630	5.4	2,071	4.7	4,444	6.7
Total manufacturing	48,990	100.0	43,754	100.0	66,220	100.0

Note: During this period, the Irish pound and sterling were at a fixed 1:1 parity.

Source: *Report on the Census of Production for Northern Ireland*; *Census of Industrial Production* (various years)

The changes forced on Irish policy-makers by economic collapse in the late 1950s were fundamental and far-reaching. The Control of Manufactures Act, which prohibited foreign ownership, was abolished and replaced by a policy that systematically cultivated inward investment by offering a zero corporate profits tax on manufactured exports (replaced in 1980 by a flat rate of 10% on all manufacturing and now a flat rate of 12.5% on the whole corporate sector). In addition, attractive investment and training grants were offered as well as a complete dismantling of most tariff barriers within less than a decade.

Much of the history of the economy of the Republic during the following four decades can be explained in terms of the rapid growth of export-oriented FDI in manufacturing, from a very low base in the late 1950s to a situation in the late 1990s where two thirds of gross output and 47% of employment in manufacturing is in foreign-owned export-oriented firms (Census of Industrial Production, 1998). US investment was, and remains, at the very core of this process: by the late 1990s, almost one quarter of total Irish manufacturing employment is in US owned firms.

The new era of outward orientation in the Republic. The economic and industrial development dilemma of the Republic was that it **was confronted by two conflicting options. One was** to stay close to UK economic policy and institutional norms and attempt to track the UK's average performance over the business cycle.

However, Irish policy makers took a strategic decision in the late 1950s that the dominance of the UK market was unlikely to provide a suitable context for Irish development, modernization and faster growth. Tax varying (or, more precisely, tax re-balancing) powers were a crucial element of policy making, especially with regard to the attraction of inward investment, and the center-piece of the incentive system in manufacturing—initially a zero rate of corporation tax—required continued high rates of personal income tax and indirect taxes to balance the wider public finances. However, equally important were reforms in education, progressive improvement in infrastructure, evolution of social partnership arrangements, enthusiastic embracing of EU initiatives (the European monetary system, the single market, the social chapter, economic and monetary union), and—after many false starts—the creation of fiscal stability.[5]

The systematic reduction of exposure to the UK market as a destination for Irish exports is illustrated in figures1 and 2. Thus, in the Republic's "world" the United Kingdom now has a much smaller export weight than in the late 1950s—when it was almost 100%—with the rest of the EU having a correspondingly higher weight. With no other changes, a shift in export destinations to faster growing European markets would be expected to ease the constraint on the Irish manufacturing expansion.

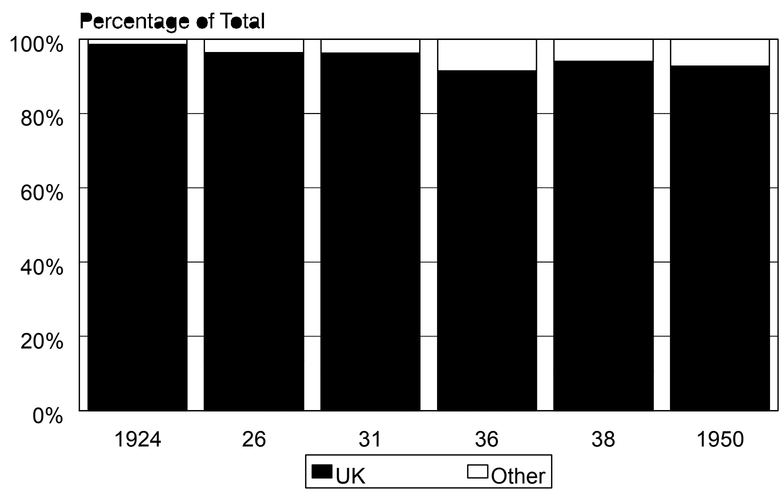

Figure 1: Export destinations, Irish Free State and Republic of Ireland, 1924-50

[5] Unfortunately, the one EU initiative that Ireland could not adopt was the Schengen Agreement, since the UK opted out, and Irish participation would have required the re-establishment of border controls between Ireland and Northern Ireland.

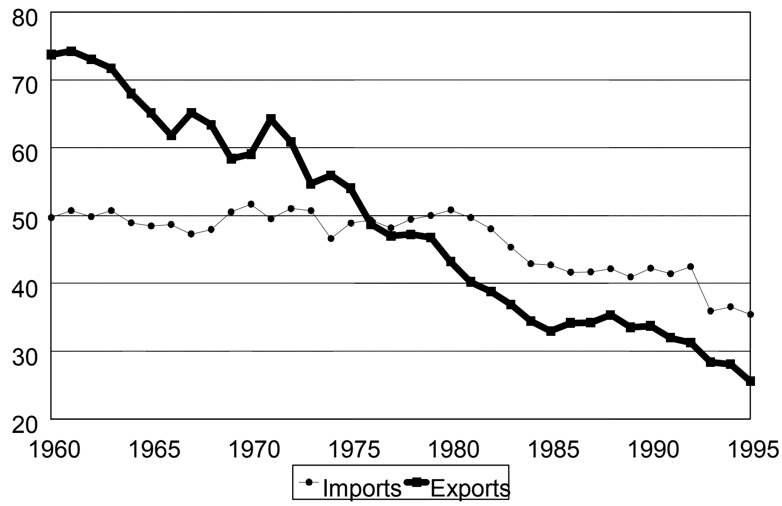

Figure 2: UK share of Republic of Ireland exports and imports, 1960-95

Where did the inward investment come from? The detailed census data for manufacturing classified by nationality of ownership for the year 1996, the height of the high technology boom, are shown in table 3. Although only 16% of local plants were foreign owned, they produced just over two-thirds of gross output and made up nearly half of total manufacturing employment. The importance of the US connection is illustrated by the fact that almost 40% of the foreign plants are US-owned, with 16% British and 13% German.

A striking difference between locally owned and foreign owned plants is that the indigenous ones exported on average just over one third of their output, while the foreign-owned ones exported almost 90%, rising to above 95% for US-owned plants.

Table 3: Total manufacturing: general characteristics, 1996

Nationality of ownership	No. of plants	Total persons. engaged	Gross output (£m)	Materials purchased: % imported	Gross output % exported
Irish	3871	120,224	12,188	25.1	34.0
O[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(of which UK)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(of which German)	98	10,684	855	80.3	93.3
Non-EU	384	69,296	19,343	65.7	93.9
(of which US)	286	54,167	15,814	61.6	95.3
Total foreign	728	106,410	24,108	65.6	89.3
Total	4599	226,634	36,296	47.0	70.7

Source: Census of Industrial Production. 1996.

Thus, by the late 1990s the domestic market was of little or no significance to the owners of foreign plants. They located in the Republic to produce for export. It was and remains the competitive characteristics on the supply side of Irish manufacturing that attract inward investment: corporate tax rates, labour costs, skill levels, infrastructure.

There are some further differences between foreign and indigenous plants, illustrated in table 4. Foreign plants tend to be larger (measured in terms of gross output, or in numbers employed, per plant); they are more productive (measured in terms of net output per person engaged); and consequently they are more profitable since they face similar wage costs to local firms. In terms of these proxy measures, US owned plants are over 17 times larger than indigenous owned plants, over five times as productive, and almost eight times as profitable.

Since the foreign-owned manufacturing sector is so large in the Republic, it has economy-wide as well as sectoral implications. Thus, the overall health of the economy has come to depend on the performance of this sub-sector. However, the mainly tax-based industrial incentive system, and the fact that the Republic features as a production platform rather than as a market, means that opportunities exist for transfer pricing. A much larger distortion concerns profit repatriation, since foreign firms tend not to reinvest a high proportion of their profits in the local economy. The resulting outward flows of profits show up in the Irish balance of payments statistics where there is a large deficit on net factor income. This introduces a wedge of some 10-12% between gross domestic product (GDP) and gross national product (GNP).[6]

Table 4: Manufacturing plants: characteristics by ownership, 1996

Plant ownership	Gross output per plant (£000)	Net output per person engaged (£000)	Destination of exports (percent)			
			UK	*other EU*	*USA*	*rest of world*
Irish	3,149	34.6	42.2	32.2	8.2	17.3
Other EU	13,851	65.3	36.8	46.8	6.8	9.6
(of which UK)	16,750	87.4	74.3	10.9	5.4	9.3
(of which German)	8,724	35.9	12.3	72.7	6.4	8.6
Non EU	50,372	166.7	19.9	50.6	11.4	18.1
(of which US)	55,293	177.9	20.1	52.5	9.5	17.9
Total foreign	33,115	131.3	22.6	50.0	10.7	16.8
Total	5481	80.0	25.7	47.1	10.3	16.9

Note: all values in Irish pounds.

Source: Census of Industrial Production. 1996.

[6] Hence, although Irish GDP per head has now exceeded that of the UK, GNP per head—a more accurate measure of performance—is still somewhat less that that of the UK.

The balance sheet. The Irish experience has been that a crude erection of trade or other barriers in order to “protect” weak regions was ultimately damaging to economic welfare. A blind belief in competition policy and the forces of market liberalization was never tried, but was also feared as inadequate. Reviewing the ways in which poorer regions can seek to accelerate their growth rate in order to catch up, Krugman (1997) suggests that the Irish experience is essentially a working out of Marshallian externalities:

1. An initial clustering of similar industries (often foreign owned and in the high technology areas such as computer equipment, software and pharmaceuticals) supported by local suppliers of specialized inputs subject to economies of scale.

2. These clusters generate a local labour market for skilled workers which further facilitates the growth of the cluster. At this stage, the training and human resource policies of the EU structural funds were crucial aid in ensuring elastic labour supply.

3. Spillovers of information further encourage growth in the high technology sectors and provide the basis for additional clustering effects, often in traditional areas that can benefit from new technologies in their supply chains (such as food processing). Here, the improvements in physical infrastructure and in the productive environment supported by the structural funds were crucial.

4. Finally, a consensual process of social partnership needs to be put in place to ensure that there are as few losers as possible in the economic restructuring that accompanies such a virtuous circle, with the result that growth is less likely to be choked off by industrial unrest.

However, Krugman also draws attention to some of the risks to which a country like the Republic is exposed, as it follows this growth process. First, the dynamic foreign manufacturing base is concentrated on a narrow range of technologies that can quickly move through maturity and into decline, an issue that will be taken up again in section 3. Second, the policy initiatives that ensured that the Republic enjoyed an advantageous “first mover” status in the early 1960s may not be sufficient to guarantee success in making the transition to the next wave of technological inward investment when the key electronics, software and pharmaceutical sectors enter their maturity and/or declining phase. Indeed, the Irish industrial incentive package may not even be able to retain the original maturing sectors, which may move to lower cost locations.

2.2 Industrial and trade policy in Northern Ireland[7]

Although radical changes have taken place in Northern Ireland manufacturing during the past three decades, in some important ways these developments can be seen as a continuation of an historical evolution that started after the first world war.

[7] In this section we draw selectively on material from Bradley and Hamilton (1999) and Bradley (2001).

The first annual census of production taken in 1924 in Northern Ireland showed that one sub-sector of manufacturing (textiles, including textile products) accounted for 64% of total manufacturing employment and produced 54% of gross output. At the start of the outbreak of civil unrest in 1969, the share had declined to 41%. A similar census taken just before the Belfast Agreement (for the year 1996) showed the continued important role of textiles, which still accounted for about 23% of total employment in manufacturing.

The evolution of an index of aggregate Northern Ireland manufacturing employment over the three decades from the 1960s to the end of the 1980s (the period of major civil unrest) is shown in figure 3, in comparison with indices for the aggregate UK and for the Republic. A large element of the northern manufacturing decline can be put down to the inability of the North to attract inward investment to anything like the extent of Scotland or the Republic of Ireland due to the uncertainty and disruption of the conflict as well as world economic conditions.

While Northern Ireland tracked a wider decline in UK manufacturing, it did not experience the parallel strong growth of private services that occurred in the more prosperous core regions of southern England. A rigorous analytic study by Borooah and Lee (1991) interpreted the northern decline in manufacturing employment over the 1970s and early 1980s simply in terms of a systemic loss of regional cost competitiveness, and showed that growth of total factor productivity in Northern Ireland during the 1960s and 1970s was at a rate substantially below that of the UK, but at the same time wage rates in Northern Ireland converged rapidly on the UK average.

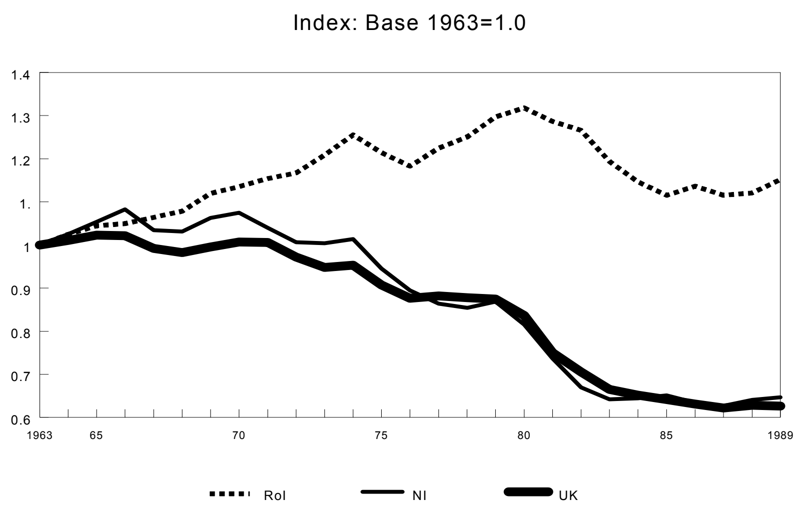

Figure 3: Evolution of manufacturing employment, 1963-89

Recent industrial strategy in Northern Ireland. The most recent major report on industrial strategy in Northern Ireland—*Strategy 2010*—was published in March, 1999.[8] The debate around industrial strategy in Northern Ireland has paralleled the experience of the Republic. The overriding emphasis in strategy from the mid-1980s was the need for improved competitiveness as the key driving force behind industrial policy, with a consequential reduction in the level of financial subsidization of industrial activities. However, the necessary changes in policy were only implemented to a very limited extent (Northern Ireland Economic Council, 1999). There seems to have been a clear lack of success on the part of the agencies in Northern Ireland, whether due to implementation difficulties or reluctance to wean industry away from high levels of subsidization. For example, the average rate of financial support to industry in 1996-98 made up 5% of manufacturing GDP and more than 20% of manufacturing investment, values which are very high in comparison with other UK regions and the rest of the EU (Strategy 2010, 1999: 113).

Strategy 2010 correctly identified the rapid globalization of economic activity as the primary factor that will set the future context for accelerated growth and restructuring of manufacturing in Northern Ireland. Although the opportunities offered by globalization are obvious, with international trade growing at over twice the rate of local GDP, these benefits can only be realized if the local economy can obtain access to export markets by having a high degree of competitiveness, measured in the very widest sense. For a regional economy like Northern Ireland, a local concern for the health and dynamism of the external economy will always have two distinct but complementary aspects:

1. How external markets are going to sustain buoyant demand for exports from Northern Ireland, and
2. Where foreign direct investment (FDI) into Northern Ireland is likely to come from.

In a short to medium-term perspective, the list of dominant export destinations and sources of foreign direct investment are unlikely to switch dramatically from the position today. Consequently, the British market must continue to be of central concern for Northern Ireland producers, since it is the destination of over half of external sales and is the source of the bulk of inward investment.

The size and persistence of the British Exchequer financing (the so called subvention) serves to influence and color every aspect of the northern economy. The subvention directly supports employment in the northern public sector, which makes up about 33% of total employment, compared with 22% in the UK as a whole (and about the same in the Republic). The subvention also directly supports incomes of the unemployed, the retired and the sick, as well as providing a high level of public

[8] Although *Strategy 2010* came under fierce criticism from the media, from the Northern Ireland Economic Council and from academics (including the present writer), it was never revised, has a life after death, and appears to continue to supply whatever strategic logic there is to northern industrial strategy (Bradley and Hamilton, 1999).

housing, health and education (over and above direct public employment aspects). These might be termed the primary impacts of the public sector.

However, secondary impacts of Northern Ireland's public sector activity on the structure and behaviour of the local manufacturing and market service sectors are of equal, if not greater, importance relative to the above primary impacts. For example, subvention finance sucks in imports, and explains much of the buoyancy of the retail sector.[9] Northern manufacturing has come to be made up predominantly of small firms, oriented mainly to supplying the domestic market, which is in turn sustained to a great extent by direct and indirect demand arising from public sector activity. For example, the fact that the northern economy emerged relatively unscathed from the last British recession of the early 1990s was due in the main to the large size and cushioning effects of automatic and discretionary public expenditure stabilizers. The buoyancy of activity in the northern manufacturing sector relative to Britain was also largely due to the much higher level of subsidies and grants, and, therefore, almost certainly had little to do with local competitiveness in any underlying sense.

Diagnosing the reasons for Northern Ireland's performance. Perhaps the greatest success of the northern economy was that it functioned in a relatively normal fashion in spite of prolonged and severe disruption from civil unrest. In part, this can be explained by the availability of financial transfers to boost public sector activities so that the negative consequences of the inevitable decline of private sector activities were mitigated. In the 1950s and 1960s, Northern Ireland had attracted a substantial level of foreign direct investment to replace the shrinking (but still important) textiles and heavy engineering sectors (Farley, 1995).[10] This investment was predominantly in sectors where the North already had a comparative advantage, such as artificial fibres. Unfortunately, this advantage effectively vanished with the onset of the oil-price rises of the 1970s, and a wide range of labour intensive industries across northern Europe in general migrated to the low cost centres of southern Europe and Asia..

Current policy proposals on manufacturing incentives have focused on the perceived need to rebalance and reform priorities for financial support. Unfortunately, with regard to the provision of incentives for inward investment, current thinking is still very conservative. With regard to direct financial assistance, it is suggested that "the existing grant regime for inward investment should be maintained unless and until new measures become available" (Strategy 2010, 1999: 168-169). Moreover, the possibility of targeting grants at specific sectors or that differential rates of assistance be decided on a sectoral basis were ruled out, for reasons that were not

[9] The existence of the subvention finance means that Northern Ireland households can enjoy a very high rate of consumption spending without this causing any problems for the current account of the balance of payments. The balance of payments constraint only matters at the UK national level, and not for its constituent regions. It is this latter constraint that can operate to constrain consumer spending in a sovereign state like the Republic of Ireland.

[10] See Bradley (2006) for a more extended treatment of the Northern Ireland clothing and textiles sector.

made explicit. Rather, grant prioritization was recommended based on a series of specific company characteristics, such as commitment to research and development or export orientation. This would seem to be a continuation of what is understood to be the existing situation and, moreover, raises serious questions as to how the necessary rebalancing of industry from low to high value added activities can take place. For example, with regard to attempting to match the Republic's low rate of corporation tax, Northern Ireland has no policy-making powers in fiscal matters and must implement UK-wide rates.[11]

Policy making for promoting and sustaining inward investment in Northern Ireland needs to be based on a comprehensive, critical and realistic evaluation of the present endemic lack of underlying competitiveness of the region, as documented—for example—in the regular Department of Trade and Industry publications on *Regional competitiveness indicators*. The faster growth of manufacturing output and employment in Northern Ireland relative to Britain is sometimes presented as a sign of underlying competitiveness rather than as an indication that very high grant rates serve to attract a certain type of labour intensive low profit manufacturing and service activities to Northern Ireland before it leaves the UK and the EU for lower wage locations in Eastern Europe and elsewhere.[12] This is likely to deceive nobody, least of all analysts of global economic issues upon whom multinational companies rely for advice on their future investment strategies. These issues are further examined in two case studies elsewhere (Bradley, 2006).

3. STRATEGIC MARKETING AND FUTURE IRISH INDUSTRIAL STRATEGY

Past and present industrialization on the island of Ireland has displayed a curious asymmetry. In the late nineteenth century, the north-east region—centred on Belfast—displayed phenomenal growth in a range of what were then modern high technology industries (ship-building, engineering and textiles), while the rest of the island stagnated. Almost exactly one hundred years later, the southern part of the island—centred to a large extent on Dublin—displayed phenomenal growth in a range of high technology industries (computers, software, chemicals and pharmaceuticals), while the northern part of the island displayed little or no dynamism and retained a dependence on declining industries.

Explanations for this behaviour require economic as well as business perspectives. Research suggests that development is most active where two conditions hold:

1. A sufficient degree of policy autonomy is available that permits freedom of action to address local problems;

[11] We return to the issue of corporate tax harmonization in the concluding sector.

[12] Data presented in the *Strategy 2010* working paper on the textiles and clothing sector (unpublished) show that wage rates in Northern Ireland are almost nine times higher than in Estonia (for textiles) and nine time higher than in Romania (for clothing). The ratios for Bangladesh and Vietnam are in the region of thirty times higher.

2. Economic and business policy are designed and implemented in tandem: the first to design an attractive environment for business to flourish; the second to recognize and exploit profitable opportunities where they exist, and to feed back information to policy-makers where problems and obstacles are identified.

Must the success of one region of the island of Ireland always be at the expense of the other? In what follows, we examine issues related to business and policy cooperation on the island.

3.1 Industrial policy in regions and states

At various times in the life of a country or region, often when the economy is performing particularly poorly or is facing major new challenges, state and regional governments and agencies carry out in-depth reviews and re-evaluations of economic and business strategy. To the extent that the focus is on problems and challenges that are regarded as "strategic" rather than "tactical" in nature, such policy reviews are only carried out infrequently, and have a medium or long-term orientation. The ability of such reviews to improve economic and business performance depends both on the extent and quality of the review of past policies and future options as well as the extent to which any policy prescriptions are systematically implemented.

The key differences in policy emphasis as between states and regions are summarized in table 4. In the case of a state (like the Republic), there is a primary focus on economic policy, since states have considerable freedom of action in setting policies in the fiscal and monetary areas. A region (like Northern Ireland), on the other hand, has little or no freedom in this area, and its policies derive from the larger state (in this case, the UK) of which it is a part. When it comes to business policy, regions have—or at least usually seek—some freedom of action which they can attempt to use to differentiate their business environment from other regions of the state. In the case of Northern Ireland, an example of business policy differentiation has been the use of higher rates of grant aid than apply elsewhere in the United Kingdom. States also need to focus on business policy initiatives, but in the wider context of institutional and regulatory arrangements that promote greater efficiency of their firms as they compete within the international marketplace.

States can use economic policies to attempt to influence the environment within which businesses can function efficiently, even though their freedom of action has diminished as supranational organizations like the European Union take on more power as a result of policy harmonization. Regions have far less power, and must take most aspects of the economic policy environment as set externally by the state to which they belong.

Table 4: Policy focus in regions and states

	Region	State
Economic policy	Derivative focus	Primary focus
Business policy	Focus on differentiation	Institutional and regulatory focus

But regions are not completely powerless when it comes to policy making, and can use business policies to distort conditions in their favour relative to the other regions of their state. Nevertheless, policy makers in regions still need to understand how national economic policies affect them differentially, even though there is little that they can do to influence policy other than to call for some form of "compensation" to offset actual or perceived disadvantages. Unfortunately, such "compensation" often comes in the form of financial transfers from the core regions to the periphery regions that can blunt competitiveness and engender dependency.[13]

The dilemma facing regional policy makers requires them to strike a balance between the knowledge that national policies can have regionally asymmetric negative impacts, and the extremely constrained scope for designing off-setting region-specific policies within the context of the nation state.[14] Thus, regional policy has a built-in tendency to become inward-looking that is sometimes difficult to counteract. National policy-making, on the other hand, tends to be more outward looking and is constrained only by the more complex, political and diffuse rules of the global marketplace as it seeks to optimize local gains from policy initiatives.

These policy dilemmas have been summarized by Kenichi Ohmae as follows:

> The world economy today represents a simultaneous shift of power from the traditional national government down to region-states, and up to super-national economic blocs. Governments in tune with this change will seek economic stability through the latter, and prosperity by means of the former (Ohmae, 2000).

With the recent regional devolution measures affecting Northern Ireland, Scotland and Wales within the UK, power is beginning to pass from the centre (London) to the regions (Belfast, Edinburgh and Cardiff). Simultaneously, increasing integration tendencies within the European Union is resulting in some powers that were previously the prerogative of nation states passing to supranational agencies like the

[13] The Mezzogiorno region of southern Italy has given its name to a phenomenon of underdevelopment and dependency that arose originally when the much richer northern Italian regions gave generous long-term income transfers to the south, which had an unintended side effect of locking the south into a low efficiency, low productivity, low entrepreneurial dependency (Commission of the European Communities, 1993).

[14] A recent example of an asymmetric shock that negatively impacted on Northern Ireland relates to the refusal of the UK government to join the European Monetary Union at its inception in January 1999. The subsequent strengthening of sterling relative to the euro had a more serious impact on the weaker Northern Ireland economy that on the more prosperous and strong core British regions, particularly due to the trade exposure to the Republic, a euro zone member (Bradley, 1998).

European Central Bank and the European Commission. In certain respects, the policy environment of regions is coming to resemble that of small states, while the policy environment of small nation states is coming to resemble that of regions. Indeed, according to Ohmae, the world economy has become a series of interacting regions, where national boundaries have lost much of their previous economic and business significance (Ohmae, 1996).

At the risk of oversimplification of what are very complex issues, perhaps what the comparison between the Republic and Northern Ireland shows is that the intelligent combination of economic policy and business strategy can generate huge synergies in terms of rapid national growth and convergence. To achieve these synergies requires a degree of economic policy autonomy that can be used to protect workers who lose their jobs in declining sectors and who require extensive retraining for other occupations. But more importantly, policy autonomy can be used to address weaknesses shown up by frameworks such as the competitiveness diamond of Michael Porter or the capability triad of Michael Best. Regions simply do not have sufficient economic policy autonomy and are heavily restricted in the extent to which they can intervene to support individual sectors and sub-sectors.[15]

3.2 Wider strategic policy issues on the island of Ireland

In a wide strategic context, the two regions of the island appear to be characterized by very different economic policy environments as they plan for their futures. In the case of the Republic, its strategic policy orientation towards the future is relatively benign at present and could be characterized in terms of five key issues.

1. The continued creative use of its modest but significant scope for national policy-making autonomy against a background of a progressive ceding of elements of macroeconomic fiscal and monetary policy autonomy to the institutions of the EU.

2. The continuation of the crucial policy orientation of the past decades concerning openness to inward investment using a mainly tax-based system of industrial incentives and associated improvements in physical infrastructure and human capital.

3. Further modernization of the industrial base through targeted foreign direct investment in high technology areas as well as through steady expansion of indigenously-owned industry (see Bradley (2006) for an extended treatment of this issue).

[15] An example of the limits to discretionary policy making in Northern Ireland is the case of the high level of aid promised to a Taiwanese textiles plant (Hualon), which sparked off protests from rival textiles companies in England and had to be adjudicated (in favor of Northern Ireland) by the European Commission. In the event, Hualon changed its plans and never came to Northern Ireland.

4. A likely continuation of the process of “decoupling” of the economy away from the earlier heavy dependence on the UK as a result of its sustained systematic and pro-active orientation towards participation in EU policy initiatives.

5. The pursuit of steady improvement in economic performance with the aim of building on the recent rapid convergence in order to sustain a standard of living equal to that of wealthier core economies of the EU as well as bringing about greater social equity.

The strategic policy context for Northern Ireland is more difficult to characterize with any degree of precision since the region has only recently experienced a sustained period of peace and is mired in a protracted process of designing and implementing major changes to its system of political and economic governance. Nevertheless, from a strategic point of view the region faces major policy challenges and will have to address some potentially serious issues.

1. The continuation into the medium term of a situation where the region has limited regional policy-making autonomy, combined with a lack of political consensus as to the wisdom of seeking out and using greater policy autonomy in the context of the Belfast Agreement.

2. The continued dependence on a narrow range of policy instruments (particularly in the area of indiscriminate grant-based industrial incentives) that have not proved particularly effective in the past.

3. Difficulties in modernizing its manufacturing base away from its traditional specialties, such as textiles and clothing, towards higher value-added products (see Bradley, 2006, for an in-depth treatment of this issue).

4. A continuing dependence on Britain as the main external sales destination. Although this has been a benefit during the past few years, when the major economies of the EU suffered slow growth, it may prove to be potentially undesirable in the longer term if the UK remains outside the euro zone.

5. Economic peripherality within the UK, a relatively low standard of living among the UK regions, combined with the possible perpetuation of dependence on external financial aid in the form of the “subvention”, with consequential lack of dynamism in the regional economy (that is, a *Mezzogiorno* problem).

The fact that the northern and southern strategic policy orientations are so out of alignment is likely to continue to have disruptive consequences for planning and executing any desire to “complete” the island’s economy. While there are likely to be many positive aspects to the evolution of North-South relationships over the coming years, there will be negative aspects as well. In very general terms, the strategic policy environment of the Republic would appear to be somewhat more favourable at present than the situation facing Northern Ireland. There remains the possibility that, in the absence of explicit and concerted North-South cooperative initiatives, there will be a tendency for a continuation of the previous process of essentially separate development of the two regions and an inability to complete the island economy, even as conventional North-South trade continues to expand. In the absence of appropriate island-wide policy making forums, there is likely to be a lack of focus and urgency in addressing the related problem and consequences of policy mismatch.

3.3 Industrial structure and North-South business links

Overall manufacturing employment shares in Northern Ireland and the Republic are fairly similar, though the South has a far higher concentration in high productivity, high technology industries. This reflects the much more significant contribution of foreign direct investment, which has raised productivity and profitability substantially. Indirect information on the indigenously owned sectors suggests greater similarity between the two island economies.

A key relationship between the economies of Northern Ireland and the Republic involves North-South trade. The ability to sell outside a regional economy requires the ability to produce a range of goods and services that are in demand elsewhere. The characterization of the northern and southern productive structures—with the South having a more modern industrial base—has important implications for internal trade.

Table 5 shows southern exports to the North, to Britain and to the entire EU, disaggregated using the standard industrial trade classification (SITC), with specific details of some sub-divisions. The table highlights some striking facts. Exports from the South to the North are heavily concentrated in SITC 0 (food and live animals), accounting for 24.5% of total southern exports to Northern Ireland. For the same product category, this compares with 17% of total exports to Britain and only 11% of total exports to the EU as a whole.

There is a very high concentration of southern exports in categories SITC 7 (machinery and transport equipment) to Britain and the EU as a whole, accounting for over a third in each, but only 12% of total southern SITC 7 exports to the North. More notably, for the important category of SITC 75 (office and ADP machines), almost 25% of southern exports to Britain and to the EU fall into this category but less than 2% of total exports to the North.[16]

[16] The situation for SITC 5 (chemicals and related products) is also anomalous, but not quite as dramatic as the previous cases, with 24% of total exports to EU in this category, 16% to Britain, but only 9% to the North. One should note a residual category—”other”—which makes up 15% of total Southern exports to the North, and is negligible to anywhere else. This category consists of goods whose trade volume is at too low a threshold to be accurately recorded, and almost certainly consists of traditional rather than high technology products.

Table 5: Republic of Ireland export shares by SITC sections, 1997

SITC section	Northern Ireland	Great Britain	Rest of EU
0	24.5	16.9	11.3
1	6.6	1.7	1.6
2	2.8	2.2	1.8
3	1.1	1.0	0.6
4	0.0	0.2	0.1
5	9.3	15.9	24.4
(54)	(0.8)	4.2	(5.6)
6	17.4	5.6	4.4
7	12.1	36.8	35.6
(75)	(1.8)	(25.1)	(23.8)
(77)	(1.9)	(5.9)	(6.4)
8	12.0	14.8	15.0
9	0.0	3.1	3.9
Other	15.3	1.8	1.3

Note: Totals of shares may not add to 100 due to rounding

Source: Trade Statistics, December 1997, CSO.

Thus, the composition of bilateral trade between the North and the South is very different from bilateral trade between Britain and the South, as well as between the EU as a whole and the South. North-South trade—both ways—is predominantly in traditional, low technology products with an exceptionally high weight for SITC 0 (food, drink and tobacco). Of course, this phenomenon simply reflects the underlying industrial structure in Northern Ireland compared with the Republic. However, the most important dynamic promoting increased intra-EU trade in the single market of the EU is associated inter-firm trade in similar product areas rather than trade in finished consumer goods. This two-way trade simply cannot easily take place between North and South, given the contrasting production structures.

The potential gains from greater North-South trade interaction, given existing northern industrial activity, may be modest relative to the potential gains from greater penetration into wider world (including British) markets. Nevertheless, there are gains to be made from intra-island trade in circumstances that could assist in strengthening the competitive performance of all businesses on the island. North-South trade improvement is not an *alternative* to East-West trade improvement, but is entirely *complementary* to it. It is a transitional process that will produce gains in the short term and, by strengthening its supply side, will help to position the island economy to make further advances in world markets. North-South trade will reach its potential if and only if the structure of manufacturing in Northern Ireland can be modernized and brought into line with that of Wales and Scotland.

4. CONCLUSION

Industry in Northern Ireland has yet to develop dynamic, self-sustaining characteristics, especially in terms of clusters of related and supporting industries. It remains heavily subsidized by public funding and is mainly concentrated in the low technology sectors of traditional industries such as food processing, textiles and clothing. The situation in the Republic is somewhat healthier. But Irish industrial development has been heavily driven by foreign direct investment, which does not always lay down the full range of developmental roots in the domestic economy that are usual in locally-owned firms. As time passes, a range of key interconnections and spillovers between related firms and industries are taking place, but this remains an area of concern for policy makers.

How might this situation be improved? Both regions are individually small, with populations of only 1.6 and four million. Northern Ireland is not only separated geographically from Britain, but, importantly, also appears to be very weakly integrated into the supply side of the British economy, even when demand for northern output is driven by the British market. For example, Northern Ireland is almost never central to strategic planning by British firms, and risks becoming both geographically and economically peripheral to Britain. However, recent improvements in access transport and a more positive political situation should help to alleviate this over time. But Northern Ireland is unlikely ever to be placed on a par with the rest of the British economy, at least from the supply side perspective. Rather, it is likely to remain economically peripheral to Britain. In contrast, there is less geographical or economic logic to Northern Ireland remaining peripheral within the island of Ireland.

The logic in favour of deepening North-South supply-side links, thus making the two Irish regional economies less peripheral to each other, is partly economic (dealing with cross-border policy externalities and spillovers), partly geographic (close proximity and land borders have a unique and inescapable logic of their own), partly cultural (although this aspect is not without negative side), and partly political (since deeper North-South economic links might aid the consolidation of peace and political stability within Northern Ireland and greater North-South trust and harmony).

The situation in the Republic, relative to the countries that provide the bulk of its foreign direct investment (predominantly the US, but also Britain and the rest of the EU), has some analogues with the position in Northern Ireland. For example, just as Northern Ireland is not strategically central to externally owned (mainly British) firms located there, neither is the economy of the Republic always central to the strategic planning of many of its (mainly US-based) plants. Rather, the Republic is often seen merely in terms of a highly profitable location for production of goods mainly designed, developed, tested and marketed elsewhere, and a location where a very high quality labour force is available at reasonable cost. As already argued, the branch plant nature of foreign firms located in the Republic tends does not always encourage the establishment of strong economic performance built on competitive advantage. Heavy dependence on foreign investment is less likely to generate the type of cumulative self-sustaining indigenous growth that is a characteristic of successful European regional economies such as Emilia-Romagna in northern Italy and Baden-Württemberg in Germany (Best, 1990; Porter, 1990). This is a major preoccupation of Irish policy-makers.

Michael Porter has suggested that four interacting characteristics are essential for competitive success: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. It might be suggested that in order to upgrade the four Porter competitiveness factors on the island, policy-makers in the two regional economies should not plan for separate development as two competing regions, but should facilitate a coming together in order to build on natural island economic strengths and remove barriers and weaknesses so that genuine synergies can be realized for the mutual benefit of both economies. Such synergies would ultimately be reflected in the formation and development of deeply embedded, inter-connected and supportive island industrial activity. This would be seen in the emergence of industrial *clusters* of firms and industries feeding backwards and forwards off each other, industrial *districts* centred around specific industries in specific geographic regions and with the potential to increase local sourcing, and industrial *networks* involving the exchange between firms and industries of mutually-supportive information and knowledge.[17]

The unfortunate reality is that both North and South are attempting to improve their competitive advantages largely in isolation from each other (*Strategy 2010*; *Enterprise 2010*). Given the political climate of the last few decades, this process of separate development is easy to understand. The type of public and private sector planning and consultation needed to build a Porter or Best-type strategy would have demanded levels of cooperation that were never realistically going to be politically feasible as long as the conflict in Northern Ireland continued.

However, what of the post-Belfast Agreement period? During the 1990s I had been of the opinion that North-South market imperfections were a serious constraint on cross-boarder cooperation, and that this was restricting the development potential of both regions (Bradley, 1996). It might appear that many of these imperfections have been addressed, and that cross-border institutions are now in place. But as Tannam (2005) notes, cross-border business cooperation has remained at a rather narrow level that has left the underlying development processes of both regions untouched. Tannam went on to ask whether this is due to the short time that has elapsed since the institutions were put in place, or whether the wrong kind of institutions came out of the Agreement negotiations, and concludes that this is not a fruitful way to examine the situation.

My own views, based on economic and business research, are now considerably more pessimistic than they were in the 1990s. Not only have I come to believe that the economic and business cross-border institutions of the Agreement were a negative, grudging, minimalist concession to an "Irish" dimension of the inter-

[17] An interesting European case is the recent decision of Peugeot to relocate out of Britain to Slovakia. Bidding for the plant was intense, in particular between Slovakia, the Czech Republic and the Polish region of Dolnoslaskie (Lower Silesia). Slovakia won, but the adjoining Czech, Slovak and Polish regions are becoming a cluster within the automotive sector.

communal problems of Northern Ireland that fundamentally rejected the concept of an island economy, but I find it impossible to envisage any politically acceptable process through which the economy of Northern Ireland can break free of the constraints of being a peripheral region of the United Kingdom.

Remaining as part of the UK under direct rule will very likely doom Northern Ireland to play out the process of continued industrial decline, stagnation and dependency that we described above.[18] Devolved government, even under the most optimistic of circumstances, is unlikely to be more beneficial to Northern Ireland than it is at present to Scotland, where the local administration finds it difficult to design and implement distinctive, Scottish development policies (see Coyle, Alexander and Ashcroft, 2005). There do not yet appear to be any other options that would command the enthusiastic support of both communities in Northern Ireland and their political representatives. I fear that future generations will look back on the Belfast Agreement as a missed opportunity to put history behind us. This was not—as the neo-functionalists claim—due to a failure of the political elite to react to pressures emanating from the business communities. At a deep psychological level, both business communities are probably happy to function in their separate spheres, and far from urging greater action on the politicians, I believe that they colluded with them to prevent the Agreement from encroaching on the economic tranquility of their lives.

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[18] Northern Ireland’s economic dependency is presently, of course, of the comfortable variety, since the British subvention ensures that living standards do not fall too far below national levels.

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John Bradley – Working Paper 23

INDUSTRIAL DEVELOPMENT IN IRELAND, NORTH AND SOUTH: CASE STUDIES OF THE TEXTILE AND INFORMATION TECHNOLOGY SECTORS

John Bradley

WORKING PAPER 23

INDUSTRIAL DEVELOPMENT IN IRELAND, NORTH AND SOUTH: CASE STUDIES OF THE TEXTILE AND INFORMATION TECHNOLOGY SECTORS

John Bradley

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Working Paper No. 23, 2006

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ABSTRACT

INDUSTRIAL DEVELOPMENT IN IRELAND, NORTH AND SOUTH: CASE STUDIES OF THE TEXTILE AND INFORMATION TECHNOLOGY SECTORS

This paper follows from another study, which showed that the industrial structures in the Republic and Northern Ireland are very different—the former with a cluster of modern high technology sectors, the latter retaining its nineteenth-century specialization in more traditional sectors. However, the most important dynamic promoting increased intra-EU trade in the single market of the EU is associated with inter-firm trade in similar product areas rather than trade in finished goods. This two-way trade cannot easily take place between North and South, given contrasting production structures. In this paper we explore the history and the nature of this dichotomy, using two case studies as illustrations: the clothing and textile sector, which is mainly a northern area of specialization, and the computer sector, a primary focus of specialization in the South. We suggest that both regions face challenges that could be used to promote North-South links on the island for the first time in modern history.

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INDUSTRIAL DEVELOPMENT IN IRELAND, NORTH AND SOUTH: CASE STUDIES OF THE TEXTILE AND INFORMATION TECHNOLOGY SECTORS

John Bradley

1. INTRODUCTION

One of the characteristics of economic research on the island of Ireland is that it seldom presents comparisons and contrasts of the two regional economies at the level of very detailed sectors. In part, this is caused by the very different sectoral structure of manufacturing and services North and South. In the Republic, attention is focused on the modern, high-technology sectors of computers, software and pharmaceuticals, and with the exception of the food processing sector, the remaining sectors are small and attract far less attention. In Northern Ireland the sectoral portfolio of manufacturing and market services is still more traditional, and is less dominated by foreign ownership.[1]

In Bradley (2006) we gave a strategic overview of the two economies on the island of Ireland. In this paper we present two case studies of sectoral specialization on the island. After presenting a brief overview of the present areas of manufacturing specialization, we then examine a mature or declining sector (textiles and clothing). This sector remains dominant in Northern Ireland but has shrunk to a smaller—mainly specialist—niche in the Republic. In the following section, a modern, high technology, sector—computers and related software—is examined. This sector has grown rapidly during the past decade and a half and has played a crucial role in driving national growth, modernization and development in the Republic, but plays a much more modest role in Northern Ireland.

At first sight, these case study sectors would appear to be at opposite ends of what Raymond Vernon has called the product life-cycle spectrum: textiles and clothing at the mature/declining stage, and computers and software at the introduction/growth stage (see Vernon, 1966 and Bradley, 2006 for further details). But appearances can be deceptive. For example, the Irish computer and software complex is narrowly focused on personal computers, components, peripherals and related software. As shall be discussed later, within this segment of the wider electronics and software industry, personal computers appear to be moving towards maturity. So, the case study can be used to reinterpret the product life-cycle framework more flexibly and apply it to niche products within a segment of manufacturing, where future vulnerability might arise because the technologies were not researched and developed in the Republic, but were merely produced and distributed to intermediate and end users.

[1] We make a distinction between foreign ownership and external ownership. Many firms in Northern Ireland are branch plants of British firms, and are thus externally controlled (NIEC, 1992).

MFPP WORKING PAPER NO. 23

2. MANUFACTURING PORTFOLIOS, NORTH AND SOUTH

2.1 Introduction

In this section, attention is drawn to an important aspect of the nature of the portfolio imbalance in Northern Ireland manufacturing, namely the continued existence of a range of traditional labour-intensive sectors in an economy that should have divested itself of these sectors long ago.[2] The performance, structural and market trend characteristics of the textiles and clothing sector of Northern Ireland are examined. Present proposals for addressing the problems are reviewed, and a range of possible future competitiveness strategies is explored.

While we attribute to the clothing/textiles sector many negative characteristics, it should be emphasized that even in the case of textiles and clothing the maturity and decline of the sector is neither inevitable nor irreversible. The example of the well-known firm Benetton in northern Italy shows how, in stark contrast to Northern Ireland, a segment of the textiles and clothing sector was developed and transformed into a high productivity, high profit success story through a synthesis of process innovations and strategic marketing (Pinson and Tibrewala, 1996).

2.2 Background to sectoral specialization on the island of Ireland

It has been demonstrated that the textiles and clothing sectors were the largest component of manufacturing in Northern Ireland in the year 1924 (Bradley, 2006). In terms of output, they made up 54% in the North, but only 2.4% in the South. Over the intervening years, the sector declined in the North, and grew somewhat in the South. For example, in the years 1951, 1961 and 1967, immediately before and after the switch to outward policies in the Republic and immediately before the outbreak of civil unrest in Northern Ireland, the employment composition of manufacturing was as shown in table 1. By 1967, the textiles and clothing sector in the Republic had grown to just over 25% of total employment in manufacturing (its peak), while in Northern Ireland it had continued an inexorable decline to just under 42%.

Although simple matrix techniques can be used to examine portfolios of different businesses, attempts to translate these to the level of an entire country or regional manufacturing sector have not been very successful (McKiernan, 1992: 115-121). In table 2 an attempt at portfolio analysis for Northern Ireland is presented, while an analogous portfolio for the Republic is presented in table 3. Both refer to the period after the ceasefires but before the Belfast Agreement (1991-96 for Northern Ireland and 1991-1998 for the Republic).

[2] It could be held that a major cost to the Northern Ireland economy of the period of civil unrest since 1968 was the slowing down of the normal forces of sectoral restructuring and renewal that operated much more vigorously in Britain and in Ireland. Continuing claims that Northern Ireland be treated as a special case merely prolongs the necessary changes.

Table 1. Employment in Irish manufacturing after the second world war

	1951 numbers	%	1961 numbers	%	1967 numbers	%
Northern Ireland						
Textiles	70,658	39.9	47,965	29.3	42,412	26.5
Clothing	27,025	15.3	23,820	14.5	21,959	13.7
Engineering and metal	43,461	24.5	51,508	31.4	49,260	30.8
Food, drink and tobacco	20,802	11.7	25,195	15.4	26,191	16.4
Mineral products	3,143	1.8	4,173	2.5	4,243	2.7
Timber and furniture	3,926	2.2	2,653	1.6	3,252	2.0
Paper, printing etc	4,500	2.5	4,954	3.0	5,404	3.4
Miscellaneous trades	3,631	2.0	3,612	2.2	7,081	4.4
Total manufacturing	177,146	100.0	163,880	100.0	159,802	100.0
Republic of Ireland						
Textiles	9,535	6.8	15,394	9.8	15,504	8.7
Clothing	28,092	20.0	27,808	17.6	29,729	16.7
Engineering and metal	18,019	12.8	26,407	16.8	33,014	18.6
Food, drink and tobacco	42,038	30.0	46,317	29.4	50,668	28.5
Mineral products	5,029	3.6	6,030	3.8	7,995	4.5
Timber and furniture	8,766	6.2	6,963	4.4	7,726	4.4
Paper, printing etc	12,343	8.8	14,696	9.3	15,156	8.5
Miscellaneous trades	16,461	11.7	14,007	8.9	17,776	10.0
Total manufacturing	140,283	100.0	157,622	100.0	177,568	100.0

Source: *Report on the census of production for Northern Ireland*; *Census of industrial production* (various years)

Taking Northern Ireland first, the key characteristics of the portfolio of manufacturing sectors from table 2 are as follows:

1. Food processing was the predominant sector in terms of output share (31%), but only second in terms of employment share (19%). In terms of average annual growth over the five-year period 1991-96, it was stagnant in real terms.

2. Textiles and clothing had the second largest output share (13%), but the largest employment share (23%), characterizing it as having very low productivity. Average annual real growth was only about 4%, and possibly lower since price competition is very strong in the sector (see below).

3. Electrical and optical goods are the third largest sector in terms of output (9.4%), and fourth in terms of employment share (9.2%). This is also a very high growth sector (about 14% per year in real terms). The characteristics of transport equipment are very similar.

4. For all the other sectors, both output and employment shares are small, and range from a high of 7.6 to a low of 1.9%, with real growth rates clustering closely about the average of 4% per year.

Table 2. Sectoral portfolio in Northern Ireland manufacturing, 1996

	Gross output 1996 £m.	1996 %	1991 £m.	growth 1991-96	Employment, 1996 No.	%
Food, drink & tobacco	2,726	30.9	2,390	2.7	19,370	19.0
Textiles, clothing & leather	1,167	13.2	849	6.6	23,800	23.4
Electrical & optical equipment	829	9.4	384	16.6	9,330	9.2
Transport equipment	742	8.4	652	2.6	10,810	10.6
Other machinery & equipment	671	7.6	328	15.4	6,850	6.7
Chemicals & man-made fibres	600	6.8	450	5.9	3,620	3.6
Rubber & plastics	502	5.7	319	9.5	6,280	6.2
Paper & printing	440	5.0	297	8.2	6,400	6.3
Other non-metallic mineral products	364	4.1	256	7.3	4,360	4.3
Basic metals & fabricated metal products	330	3.7	221	8.3	5,140	5.0
Wood & wood products	286	3.2	192	8.3	2,750	2.7
Other manufacturing n.e.s.	167	1.9	113	8.1	3,180	3.1
Total	8,824	100.0	6,338	6.8	101,890	100.0

Note: Average annual inflation rate of UK manufacturing output (1991-96) = 2.65%

Source: Northern Ireland Sales and Exports, various issues

Turning to the Republic, the key characteristics of the portfolio of manufacturing sectors (table 3) are very different from Northern Ireland, and are as follows:

1. Electrical and optical equipment is the predominant sector in terms of output share (29%), and in terms of employment share (25%). In terms of average annual growth over the seven year period 1991-98, it experienced very high real growth of 18%.

2. Chemicals (including pharmaceuticals) and man-made fibres had the second largest output share (24%), but a much lower employment share (9%), characterizing it as having low productivity. This was also a very high growth sector (about 21% per year in real terms).

3. Food processing had the third largest sector in terms of output (21.4 per 2.5% per year in real terms).

4. The only other sector with double digit output share was paper and printing (including publishing), with output share of 10.4% and employment share of 9.6%. This is also a very high growth sector (21% per year in real terms). Much of the output of the software sector is classified here, including computer manuals and CD-ROMS.

5. For all the other sectors, both output and employment shares are very small, and range from a high of 2.7 to a low of 1%, with real growth rates somewhat lower than the average of 11% per year.

Table 3. Sectoral portfolio in Republic of Ireland manufacturing, 1998

	Gross output 1998 £m.	1998 %	1991 £m.	growth 1991-98	Employment, 1998 No.	%
Food, drink & tobacco	10381	21.4	7807	4.2	47113	19.5
Textiles, clothing & leather	777	1.6	808	-0.6	15564	6.4
Electrical & optical equipment	13831	28.6	3848	20.1	60127	24.8
Transport equipment	749	1.5	406	9.1	7464	3.1
Other machinery & equipment	1196	2.5	732	7.3	14668	6.1
Chemicals & man-made fibres	11728	24.2	2685	23.4	21415	8.8
Rubber & plastics	855	1.8	515	7.5	10476	4.3
Paper & printing	5018	10.4	1645	17.3	23260	9.6
Other non-metallic mineral products	917	1.9	582	6.7	9977	4.1
Basic metals & fabricated metal products	1301	2.7	869	5.9	14960	6.2
Wood & wood products	469	1.0	230	10.7	5016	2.1
Other manufacturing n.e.s.	1207	2.5	771	6.6	12164	5.0
Total	48429	100.0	20127	13.4	242204	100.0

Note: Average annual inflation rate of manufacturing output (1991-98) = 1.86%

Source: Census of Industrial Production, 1991 and 1998

In summary, both regions of the island of Ireland display manufacturing portfolios that are heavily concentrated. In the case of Northern Ireland at the time of the negotiation of the Belfast Agreement, the two largest sectors were food processing and textiles and clothing, both of which experienced very slow real growth. There was also significant specialization in a high growth sector, electrical and optical equipment. In the case of the Republic, the predominant specialization was in two very high growth high technology sectors (electrical and optical, and chemicals) and one traditional (but quite capital intensive) slow growth sector, food processing.

Table 4. Industrial concentration by sector, 2000

Sector	Gross output share: *Republic of Ireland*	Gross output share: *Northern Ireland*	Employment share: *Republic of Ireland*	Employment share: *Northern Ireland*
Electrical & optical equipment	33.8	19.5	27.0	11.1
Chemicals & chemical products	26.3	4.4	9.1	3.6
Food, beverages, tobacco	17.2	29.6	18.8	19.4
Paper, paper products, publishing, printing	10.8	4.1	9.3	6.4
Metal & metal products	2.2	4.9	6.6	7.2
Other manufacturing	1.9	3.1	4.5	4.0
Machinery & equipment	1.8	5.8	5.6	6.7
Non-metallic mineral products	1.6	4.2	4.4	5.7
Rubber & plastic products	1.4	5.2	4.2	7.0
Transport equipment	1.2	8.4	3.8	13.0
Textiles, textile products, leather	0.9	7.6	4.3	13.0
Wood & wood products	0.9	3.3	2.4	2.9

Source: InterTradeIreland, 2004.

This form of sectoral concentration was continued, and table shows the harmonized data published by InterTradeIreland for the year 2000.

3. CASE STUDY: THE NORTHERN IRELAND TEXTILES AND CLOTHING SECTORS

3.1 Introduction

In designing strategic industrial policy in Northern Ireland, the clothing and textiles sector poses a major challenge. Although in continual decline, its rate of decline has undoubtedly been slowed by the use of large-scale grant aid to prop up ailing firms whose collapse would have destabilized an economy that was already under siege as a result of civil unrest. In other words, it proved very difficult to attract more modern industries to replace any employment loss from the decline of the traditional specialization in clothing and textiles. But, unfortunately, the sector itself failed to modernize in a way that might have preserved it from further erosion of competitive advantage.

As part of a recent review of industrial strategy in Northern Ireland—*Strategy 2010*—a sectoral working group was set up to examine the textiles and clothing sector (CTWG, 1998). The report examined the underlying structure and characteristics of the sector and attempted to formulate policy recommendations that would preserve a role for it within the future of manufacturing.

The sector is defined as being made up of business activities involving yarns, fibres, threads, fabric garments, carpets, household furnishings and industrial textiles (CTWG, 1998: 9-10). It consists of a small number of very large public corporations (the top eight of which are mostly British owned and account for almost half of total employment in the sector), and a large number of small, mostly family-owned and run businesses. The sector employs about 23,000 people (about a quarter of total employment in northern manufacturing), down from a peak of 70,000 in 1945. Employment is split roughly equally between textiles (10,500) and clothing (12,500).

Production rose in Northern Ireland, but fell in the UK as a whole, in the Republic and in the EU as a whole. But although northern productivity increased by about 2.6% each year, profit margins declined from £2,300 per employee in 1993 to £1,600 per employee in 1996 (CTWG, 1998: 21). This represents the lowest level of profitability per employee of any Northern Ireland manufacturing sector, reflecting its high labour intensity.

Table 5: Performance in the EU Textiles and clothing Industries, 1990-97

	Northern Ireland	UK	Republic of Ireland	EU
Production (%)	10	-13	-9	-5.4
Employment (%)	-8	-20	-12	-17

Source: CTWG, 1998: 21.

Table 6: Destination of exports of textiles and clothing from Northern Ireland, 1996

Country	Percentage of exports
Republic of Ireland	32
Asia	10
USA	10
France	6
Germany	5
Miscellaneous	39

Source: CTWG, 1998: 22

The sector is mainly oriented to external sales.[3] In 1996, 92% of output was sold outside Northern Ireland, of which three quarters went to Britain. The main export destinations for the remaining one quarter of external sales are shown in table 6.

3.2 Structure of textiles and clothing sub-sectors in Northern Ireland

The textile and clothing sub-sectors are further segmented, as shown in tables 7 (textiles) and 8 (clothing). The carpet sub-sector is concentrated in a small number of firms, and is the largest segment in the sector. The remainder is divided fairly evenly over six remaining segments, with household textiles (table linen, furnishing fabric) making up the smallest segment in terms of turnover (7%) but double that as a share of employment (13%). Very few Northern Ireland companies operate in the area of technical textiles, the main company being Dupont (Lycra and Kevlar).

The largest subsector of clothing is hosiery/lingerie (about a quarter of turnover and of employment), but is made up of a range of other garments. What is interesting about this sub-sector is the nature of its relationship with its main customers. Nearly 58% of the workforce in the clothing sub-sector is employed on long-term supply contracts to Marks & Spencer. A further 21% works on other non-branded supply contracts, with 19% on branded goods. An insignificant proportion (about 2%) is employed on “cut, make and trim” operations. The firms working on the Marks & Spencer supply contracts tend to be large. The rest tend to be small.

Table 7. Northern Ireland textile sector, by segment, 1996 (percent)

Segment	Employment	Turnover
Carpets	29	39
Threads, braids, twines	12	16
Weaving	10	12
Spinning	18	10
Household textiles	13	7
Dyeing and finishing	7	4
Miscellaneous	11	12

Source: CTWG, 1998: 10

[3] Note that “external sales” from Northern Ireland are defined as sales outside Northern Ireland itself; “exports”, on the other hand, are sales outside the UK.

Table 8. Northern Ireland clothing sector, by type of garment, 1996 (percent)

Garment type	Employment	Turnover
Hosiery / lingerie	25	24
Men's outerwear	17	15
Shirts	18	14
Children's wear	10	11
Jeans / leisurewear	5	13
Ladieswear	10	9
Nightwear	7	8
Protective / workwear	3	2
Other	5	4

Source: CTWG, 1998: 11

3.3 Market trends in textiles and clothing

The sector has moved through fairly distinctive trends during recent decades (CTWG, 1998: 13-14). The 1970s were characterized by buoyant mass-market demand for high quality goods, and required capital-intensive techniques, long production runs and strong vertical links in the industry. The 1980s were a period of erratic demand where the market became increasingly dominated by competition between the major UK retailers. Consumer tastes tended to become fashion oriented and segmented. Suppliers needed to be able to respond quickly to fickle changes in tastes and the knock-on fluctuation in demand forced changes on production techniques. During the 1990s, quick response capabilities assumed an even greater importance, and the larger Northern Ireland firms formed close strategic alliances with UK retail chains, particularly Marks & Spencer. This led to mergers and rationalizations in the sector.

The sector is likely to face even more daunting challenges. An immediate problem is the decline in the fortunes of Marks & Spencer, whose supply contracts in Northern Ireland support almost 60% of employment. Changing lifestyle characteristics of consumers will generate many opportunities for innovation and branding of high margin products. But the sector does not appear to be well positioned to respond to such demands, since it has functioned mainly as a supply contractor, where design and market research functions have been carried out by retail chains like Marks & Spencer.

Service requirements are also becoming ever more demanding, with continual renewal of styles rather than traditional seasons, requiring a radical shortening of supply response capability. However, if the sector continues to operate supply contracts to major UK retail chains, there is a risk that any competitive advantage possessed by the Northern Ireland clothing sector could be eroded by much lower production costs in Central Europe, North Africa and East Asia, where advances in communications technologies and low transport costs could overcome the Northern Ireland advantage of closeness to the UK market. More seriously, the northern textiles and clothing sector can no longer compete as a low cost producer without massive capital investment.[4] Furthermore, the phasing out of the Multi-Fibre Agreement—which had served to protect EU producers from low cost competition—has made the EU and UK markets even more competitive. An alternative strategy—to carry out high added-value design and marketing activities locally and outsource production to low-cost countries, might be feasible, but is likely to place severe strains on the level of technical and marketing expertise.

3.4 Future competitiveness strategies

The textile and clothing industry has many of the characteristics of a mature or declining sector. In the absence of exceptional characteristics (such as displayed by a firm such as Benetton in northern Italy), the product life-cycle framework of Vernon (see above) would suggest that the sector has very limited options in its present form. Far from displaying any exceptional capabilities, the competitiveness of the Northern Ireland textiles and clothing sector has been deteriorating for many decades. There are only a few large firms that can benefit from scale economies in pursuing low cost competitive strategies. Local design capabilities were never very strong at any time, but in recent decades have been neglected as the large firms engaged in supply contracts with UK retail chains. Wage costs have been driven up to UK levels, and a relatively low rate of productivity growth has resulted in high unit labour costs. The availability of high rates of subsidy has served to prop up an otherwise ailing sector and reduce the urgency for rationalization, change and renewal.[5] Finally, the declining nature of the sector precludes any major role for inward foreign direct investment, which is more likely to seek out lower cost labour in the less developed periphery of the east or south of the EU, or in Asia.

In light of the large size of the textiles and clothing sector in Northern Ireland, it is surprising that the major review of industrial strategy—*Strategy 2010*—came up with such unfocused proposals (Strategy 2010, 1999: 92-94). For example, positive aspects of the sector were identified as including strong family firms with professional management, although this has not generated much new thinking or innovation over the past decades. The close partnership with UK retailers was also identified as a strength, an assertion that is open to question (see above). The “flexible, young workforce” is also counted as a strength, although the sector is well known for its low skills and lack of innovation. Negative aspects of the sector are well known, and include low cost competition from Eastern Europe, Asia and North Africa, low levels of research and development, over-dependence on a small number of UK multiples, and a “poor image”. It is suggested that growth in the sector is only likely to be achieved: “by building an international reputation for excellence and

[4] Hourly wage costs in textiles (measured in US dollars) for Northern Ireland are in the region of $13, slightly higher than in the Republic ($11) but considerably lower than Germany ($21). However, the figure for Turkey is $2.5, the Czech Republic $2, Morocco $1.9 and Bangladesh $0.4. Hourly wage costs in clothing tend to be lower than in textiles in Northern Ireland ($9) but are also relatively lower in a wide range of less developed countries, such as Romania, $1 (CTWG, 1998: 71-72).

[5] The average rate of regional preferential assistance to all industry in 1996 was 5% of manufacturing GDP in Northern Ireland, but only 1.8% in Wales, 1.1% in Scotland and 0.1% in England.

specific added-value products or services" (Strategy 2010, 1999: 94). But how is this to be achieved?

Table 9. Strategies for declining businesses

	Has competitive strengths for remaining demand pockets	Lacks competitive strengths for remaining demand pockets
Favourable industry structure for decline	*Leadership or niche*	*Harvest or divest quickly*
Unfavourable industry structure for decline	*Niche or harvest*	*Divest quickly*

Source: Harrigan and Porter (1998): 114

There are appropriate end-game strategies for such declining sectors (Harrigan and Porter, 1998). The conventional strategy for a declining sector suggested by portfolio matrices has been to "harvest"—to cease any significant investment activity, maximize cash flow, and eventually divest. This was the strategy followed in the Republic, and has led to the decline in importance of textiles and clothing to an insignificant niche (see table 3 above). However, Harrigan and Porter suggest a less one-dimensional approach to strategy for declining businesses, illustrated in figure1.

1. A market share *leadership* strategy is one where a company attempts to reap above-average profitability by becoming one of the few companies remaining in the industry. Leadership permits more control over the process of decline, but does not reverse it. The tactics of achieving a position of leadership include ensuring that other companies retire more rapidly from the industry; perhaps by reducing their exit barriers or by raising the stakes and forcing competitors to reinvest.

2. The objective of a *niche* strategy is to identify a segment of the declining industry that is likely to maintain stable demand or decay more slowly, but which permits high returns to be made.

3. In a *harvest* strategy, management tries to get the highest cash flow it can from the business, while undergoing a controlled disinvestments.

4. Finally, a *quick divestment* strategy is one where the company is sold in the early stages of decline. Divesting quickly will force a company to confront its own exit barriers, such as its customer relationships and corporate interdependencies.

In table 9 a distinction is made between a favorable and unfavorable industry structure for decline. A favorable structure is characterized by low demand uncertainty, low exit barriers, and fragmented rivalry. An unfavorable structure is characterized by high demand uncertainty, high exit barriers, and conditions leading to volatile end-game rivalry.

Although table 9 is designed from an industry perspective, it offers useful insights even in the case of a whole sector in a region like Northern Ireland. The Northern Ireland textiles and clothing sector would appear to have competitive strengths in certain demand pockets and the structure of the industry appears favorable, suggesting a *niche* or *leadership* strategy. The strategy recommendations made by CTWG (1998: 27-42) appear to suggest moving in that direction. Examples include a continuation of the policy of acting as high quality, low cost suppliers to UK and US retail chains; the development of customized products and services; the development of a range of branded products, perhaps in association with the fashion niche in the Republic; and specialization in a range of technical textile products. A crucial role for government policy is identified, in terms of support for innovation, design, marketing and training.

3.5 Summary

Attention has been drawn to the nature of the portfolio imbalance in Northern Ireland manufacturing. While there is some justification of the continued large size of the food processing sector—since the agriculture sector is the largest, in relative terms, of all 11 UK standard regions—the enduring dominance of the textiles and Clothing sector is more difficult to explain. Economic logic points clearly to the need to get out of this sector, since the comparative advantage of a high wage region like Northern Ireland is weak at best, and non-existent at worst. The performance, structural and market trend characteristics of the textiles and clothing sector have also been examined, further reinforcing its declining nature. Proposals for addressing the problems as contained in *Strategy 2010* policy review appear to be pious aspirations rather than rational, implementable strategy. The range of possible future competitiveness strategies are not appealing, and include at best *leadership* or *niche*, and at worst, *quick divestment*. The future of Northern Ireland manufacturing almost certainly lies elsewhere, and not in textiles and clothing. In the next section we turn to the issues that arise in building and sustaining a fast-growing, high technology sector, a challenge that still faces policy makers in Northern Ireland.

4. CASE STUDY: THE IRISH ELECTRONICS AND SOFTWARE SECTORS

4.1 Introduction

As was apparent in table 3 above, there is much more going on in the manufacturing sector in the Republic than computers and software. But the computer-related sector and the pharmaceutical sector are at the heart of the recent rapid growth and development of the economy, and provides a useful way to examine the ability of Irish development agencies to design and implement strategies to attract inward foreign direct investment in the high technology sector generally. This is the main reason for selecting the electronics and software sector as a case study.

In this section, the way in which a complex of computer industries was attracted to the Republic is examined. In particular, the approach of the Industrial Development Authority (IDA) is described and shown to be consistent with the industrial policy frameworks associated with Vernon, Porter and Best.[6] However, the success of IDA strategy needs to be evaluated in the context of the possibility that the computer-software complex in the Republic is focused on a relatively narrow range of products within the wider electrical and optical sector.[7] It is suggested that this narrow range of products may be about to mature, and that a new approach is needed in order to make the transition to other related manufacturing activities. The section concludes with an examination of how this is being done in the context of changes in modern production processes.

4.2 How the US computer industry was brought to Ireland

The success of the Celtic Tiger has brought forth many explanations of how it came about. A recent account has been co-written by Padraic White, a former managing director of the IDA, which handled all aspects of industrial promotion prior to 1994 (MacSharry and White, 2000).[8] There is always an element of *post hoc* rationalization about such accounts, written many years after the key decisions were taken. However, White bases his account of the evolution of the modern Irish manufacturing sector in part on an earlier paper, written before the first major computer company ever decided to locate in the Republic (McLoughlin, 1972). The story of the IDA is a classic example of a state development agency that mediated between the narrow firm-based concerns of potential investors and the wider social concerns of national policy makers.

The challenge facing the IDA was how to attract just the right type and scale of foreign investment to fit the Republic's needs. There was a strong planning and research section (headed by Ray McLoughlin), which generated new ideas and concepts that were fully tested against the actual experience of the IDA representatives who were in the field trying to convince firms to consider locating in the Republic.[9]

As McLoughlin tells it, the "closed loop" system of industrial planning designed by the IDA in the late 1960s had the following components (see also figure 1).

1. Definition of the national economic and social objectives as defined by government policy;

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[6] See Vernon, 1966; Porter, 1990; Best, 2001 and further consideration of the role of strategic business frameworks in Bradley, 2006.

[7] The sectoral terminology is that of the NACE system (general industrial classification of economic activities in the European Community).

[8] Organizational changes in the wake of the 1992 review of Irish industrial policy split off the task of attracting inward foreign direct investment from the very different task of promoting development in locally-owned manufacturing. The former is now handled by a more focused IDA, and the latter by a new agency, Enterprise Ireland.

[9] On a personal note, in the year 1986 the author—in the process of compiling a lecture for development ministers from LDC countries explaining the Irish experience of foreign direct investment—had occasion to call the IDA Research Section in order to check out the extent to which IDA policy analysts had made use of Vernon's product life-cycle framework in selecting attractive sectors. To his surprise, he was told that nobody had ever heard of Raymond Vernon or of the product life-cycle!

2, Definition of the criteria for selecting target industries, whether in terms of the Republic's location or its capacity to attract inward investment;

3. Identification and targeting of specific foreign companies and detailed assessment of their investment requirements;

4. Assessment of the Republic's ability to meet the development needs of those companies;

5. Monitoring of progress in successfully attracting investment projects.

In more familiar language, White described the policy goal as "to target with rifle-shot precision individual companies that met specific criteria, then go directly to them and make the case for locating in Ireland" (MacSharry and White, 2000: 231-32). Using even more colloquial marketing language, White referred to ""these armies of cold callers, and the commando-style task forces fanning out across the world, laid the ground for Ireland's dramatic success in getting new industries later in the 1970s" (MacSharry and White, 2000: 231*).*

Since the IDA was a relatively small organization, the workload to implement all elements of the promotional strategy was phenomenal:

> In the first full year (1971) of the new direct marketing approach, IDA executives made presentations to 105 different target companies. Next year, they increased this to 775 in 13 countries. And, by 1973, a staggering 2,600 presentations top individual companies were made across the world (MacSharry and White, 2000: 232).

Source: McLoughlin (1972): 31

Figure 1: The Industrial Development Process

Even at a very early stage, the IDA had a sophisticated system of scanning the world business horizon, and identified the electronic and pharmaceutical sectors as having desirable characteristics that particularly suited the Republic's situation. The man-made-fibre sector had also been targeted, and had been a big success in Northern Ireland. But after an initial period, it was hit by the OPEC oil price shocks of 1973-74, and few firms survived. Clothing and textiles was also targeted, and firms like Wrangler, Bluebell, Farah Jeans and Burlington Industries located in Ireland and created welcome jobs (MacSharry and White, 2000: 274). But with tough price competition from low-wage Asian and southern European economies, and disruptive changes in fashion, most of them either closed or cut back severely.

The first critical success in attracting a world-class computer firm was Digital Equipment Corporation (DEC), a pioneer in mini-computers. Its presence heavily influenced many other major multinational computer hardware and software companies to locate in the Republic in the following years. Today, electronics represents the largest single foreign-owned manufacturing sector. It contributes 30% of total exports and employs about 44,000 people directly (18% of total employment in manufacturing).[10] In addition, a large software sector has grown up around the hardware industry, and it employs a further 15,000 people directly and produces 40% of all PC package software sold in Europe. Both the hardware and software sectors have further significant impacts on a wide range of other—often traditional—sectors.[11]

It was generally realized by the IDA that their unique selling point, giving the Republic a crucial advantage in winning inward investment in the high technology, high profit sectors, was the low rate of tax on corporate profits (zero on export-related profits initially, but changed to a flat rate of 10% after the Republic joined the then EEC in 1973). This incentive had some striking virtues. Unlike an incentive system that provided high capital grants and required continuing subventions, the benefits of the tax-based incentive was that it only kicked in when firms were up and running, and actually making profits. It also proved to be a crucial benefit to high profit firms, who are invariably located at the earlier stages of the product life-cycle and are at the cutting edge of product and process innovation. It was also an incentive that was kept stable over many decades, and the IDA and the Irish government ensured that it could be fully credible over the usual business investment planning cycles of 10 to 15 years or more. Finally, the tax-based incentive had the great virtue of being very simple, easy to understand and transparent.

But the tax incentive, even combined with fairly generous capital grants, would not have been sufficient to stimulate growth from a zero base in new technology sec-

[10] Detailed data for the electronics sub-sector of NACE 30-33 (electrical and optical equipment) is taken from annual census of industrial production.

[11] For example, the packaging and printing industry—largely locally owned—supplies sophisticated products and services to the hardware and software sectors. Only some of the activities of the software sector fall within the classification of "manufacturing", and are included in the census of industrial production. Further data have been taken from the IDA web site: www.ida.ie

tors. Prior to 1970 there had been no indigenous electronics sector in the Republic and only a handful of mainly US companies (General Electric, Ecco and Core Memories). It was quickly realized by Ray McLoughlin, head of the IDA planning and research section, that the limited supply of electrical engineers and technicians in the Republic would be a major deterrent to selecting the country as a location for industries in this potentially fast growing niche. By the mid-1970s, Irish universities were producing about 100 electrical engineers and 200 technicians, but a massive increase in supply was called for if the sector was to expand.

The IDA alerted the Irish government to the potential crisis, which could easily choke off growth. Very quickly, the university sector was expanded and given massive increased resources. By as early as 1979, new and expanded courses in electrical engineering were under way, post-graduate conversion courses were provided to encourage science and other graduates to enter the new field, and a system of sub-degree level regional technology institutes was planned and implemented over the next decade. When the poor quality of the telephone network was also identified as another bottleneck that would impede data-transmission, a crash programme was put in place, a new state telecommunications agency was set up, and a fully digital nation-wide system was installed and commissioned by the mid-1980s. This programme was also used as a further incentive to attract inward investment in the telecommunications area,

Just as DEC was the lynch-pin of the first phase of inward investment in the computer area, the success in attracting Apple to establish its European manufacturing base in the Republic as early as 1980 was the linchpin of a strategy that targeted the new wave of PC-based hardware and software. The IDA approach has been described as follows:

> The IDA electronics division used a see-through model of a computer to identify every component in it. Then, systematically, it canvassed the makers of each individual component, such as keyboards, hard disks, cables, computer mice and sub-assemblies. The decade (1980) closed with Ireland successfully inducing two companies the IDA had pursued for over a decade to locate here—Intel's microprocessor plant and Motorola's communications-products plant (MacSharry and White, 2000: 288-89).

The high-point of the IDA strategy came during the 1990s, when the Republic became the front-runner for most of the sophisticated foreign investment in electronics, computers and software. A virtuous circle had been created, with electronic and computer equipment at its core, a spill-over into PC-related software development and customization, and a further spill-over into telecommunications-based marketing, customer and technical-support services. This both assisted existing producers located in the Republic and contributed to the creation of a sophisticated international financial services sector.

4.3 The future of the computer and software sector in Ireland

A hint of how the IDA has been dealing with the incipient maturity problem of the computer sector was contained in the review of industrial promotion strategy (Enterprise 2010) prepared by Forfás, the co-ordinating agency of the IDA and Enterprise Ireland:

> The emerging new business model is leading to a new pattern of international investment, with corporations selecting the best location for each particular activity, rather than necessarily putting integrated projects in a single location (Forfás, 2000: 2).

This type of decentralised approach within firms is well known, and was the basis for the success of Dell in creating a high profit computer firm in an area that looked as if it was reaching maturity in the late 1980s. The issues are illustrated in figure 2. The nature of operations carried out within the firm range from "do everything" to "do nothing". The nature of inter-firm contacts ranges from a transactional basis (with many suppliers) to a closed basis (with only a few carefully selected suppliers).

The case of Dell illustrated the overriding importance of final assembly, distribution and marketing. In terms of inter-firm contact, a small number of long-term suppliers were used. Ireland was an obvious location for such a company, particularly in the 1990s, since many of the suppliers (including Intel, the supplier of the vital microprocessors) were already located in the Republic, and geographical peripherality was a serious problem because of good transport and communications infrastructure and (in stark contrast to textiles and clothing), the high "added-value" density of the final product.

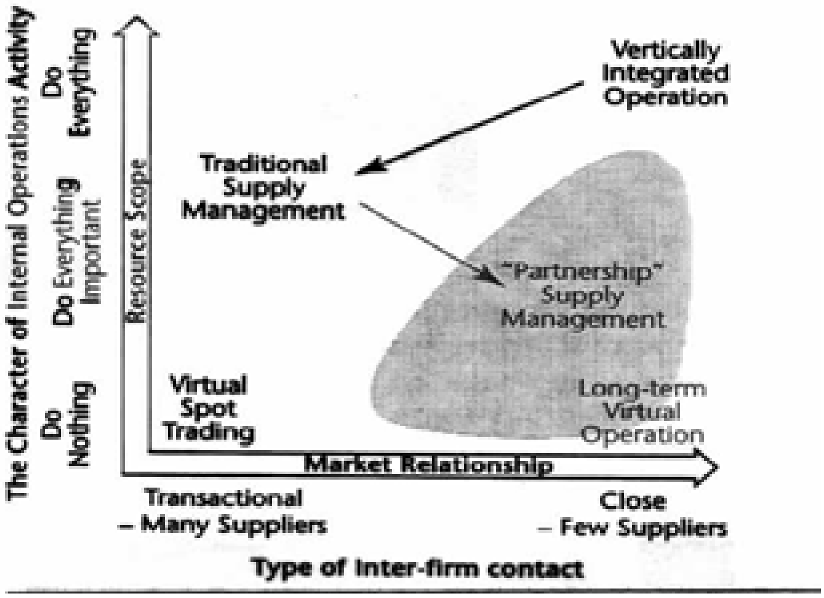

Figure 2. Types of supply relationship

Until recently, sourcing inputs from other countries would have incurred unacceptably high transaction costs (both in terms of inter-firm communications and border controls for intermediate products). However, the dramatic fall in transport and communications costs, as well as the completion of the single European market by 1992, worked strongly in the Republic's favour. But *Enterprise 2010* appears to envisage a wider application of global outsourcing, with the Republic at the high added-value core of activities. Porter's framework suggests that this approach would leave the Republic vulnerable to changes in technology, and Best's framework suggests that such an approach will require a high standard of excellence in all aspects of the economy. Either way, the suggested new approach of marketing the Republic as a "network" location in a type of post-industrial age will be a major challenge.

4.4 Summary

There were many different aspects to the success of the IDA in attracting inward investment in high technology areas. It had a certain independence from government and a separate role in planning strategy at the national as well as the firm level. This meant that it was well equipped to deal both with research into the actual needs of individual industries as well as requirements at the national level in terms of basic physical infrastructure, education and training, telecommunications, and transport needs. There was also a realization that national industrial promotion was a continuously evolving challenge:

> The nature of industry keeps changing—there is a continuous process of decline in some sectors (for example, textiles and mechanical engineering) and growth in others (software and e-commerce). So we can assume that a fair share of the industries we have today will decline and decay in coming years. Thus, we need to be continually searching for the emerging star sectors that are competitive in an Ireland of rising costs compared with others in an enlarged European Union (MacSharry and White, 2000: 313).

Another crucial characteristic of the IDA approach was its pro-activity, described provocatively as follows:

> It is IDA policy to gear itself to discharge the total process to the limit of its legislative permit, and while it will not encroach on areas which are clearly the responsibility of other state organizations, it will err on the side of doing rather than not doing where the returns on effort appear to be high (McLoughlin, 1972: 30).

But in a curious way, the IDA had a simpler and more direct strategic mission in the Ireland of the dismal 1960s and early 1970s:

> The need to create jobs is even greater now than before. If the jobs aren't there, the advance factories are useless because we can't fill them, the regional plans are useless because there are no jobs to disperse and the selection exercise is useless because there is nothing to select from (McLoughlin, 1972: 36).

As the IDA faces into the new millennium, and as the existing base of PC-based computers and software matures in an increasingly volatile world on electronic and communications revolution, a whole new set of complex challenges is about to present itself. But the experience of the past 30 years illustrates that the IDA played a vital role in mediating between the formulation of national industrial policy (interpreted in the very widest sense as including taxation, infrastructure and education) and the requirements of selected sectors and firms within these sectors. The tension that appears to characterize the worlds of academic research in economics and business found no parallel in the IDA's world of promoting Ireland as a desirable location for high technology foreign direct investment.

5. CONCLUSION

Industry in Northern Ireland has yet to develop dynamic, self-sustaining characteristics, especially in terms of clusters of related and supporting industries. It remains heavily subsidized by public funding and is concentrated in the low technology sectors of traditional industries such as textiles and clothing. The situation in the Republic of Ireland is somewhat healthier, but because industrial development has been so heavily driven by foreign direct investment, which tends not to lay down the full range of developmental roots in the domestic economy, the key interconnections between related firms and industries have yet to take place fully.

Porter has suggested that four interacting characteristics are essential for competitive success: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry (Porter, 1990). First, with regard to *factor conditions*, there is clearly much that could be done to improve the level and quality of education, training, infrastructure and technology on an island basis, in much the same way as the Republic of Ireland has managed to do over the past decade by itself. As Porter emphasizes, improved factor conditions do not come about automatically, but as the result of government and companies bringing them about and subsequently sustaining them. What the case study of clothing and textiles in Northern Ireland suggested is that there are serious problems with education and training in these sectors, and in other traditional lines of northern specialization. In the Republic the problems are less severe, since the educational and training system has been oriented towards serving the factor needs of a range of modern high-technology industries.

Second, *demand conditions* are a clear example of how island-based activity and policy could bring significant economic improvement. What is required is the creation of sophisticated and demanding local buyers who put pressure on companies to meet high standards in terms of product quality, features and services. There is clearly substantial scope for development on this front, even in the Republic where industrial success is still tightly focused around the activities of multi-national companies. There seems to be some evidence that foreign plants are increasingly sourcing their inputs locally and that indigenous industry is responding to the challenges that they demand. However, there is certainly potential for further development. The turnaround in performance, documented by O'Malley (1998), and the increased cross-border trading activity of northern small and medium-sized businesses suggest that circumstances are already changing for the better.

The third determinant of the competitiveness diamond is the need for *related and supporting industries*. In effect, this is the complement of demand conditions and involves the development of a critical mass of competitive suppliers of specialized components, machinery and services. The relevance of the island economy is that Porter emphasizes the importance of geographic proximity and close working relationships for the promotion of the key issue of innovation, involving information flows, technical interchange and the opportunities that exist for sharing. It is in this respect that he presents the case for the importance of *clusters* of related industrial activity, with strong forwards and backwards linkages, both within and between industries.

In a long historical context it is clear that the Belfast region had such a cluster of related and supporting industries between the latter part of the nineteenth century and the first third of the twentieth (Ó Gráda, 1994). However, the very success and dominance of sectors such as clothing and textiles probably made it difficult to break with the past and condemned the sector to a slow decline. In the Republic, on the other hand, the high-technology cluster of computers and pharmaceuticals only came towards the end of the twentieth century. International experience has been that regions which have been dynamic in terms of traditional industries often tend to experience serious problems in transforming and restructuring. The inflexibilities are probably more understandable in terms of Olson's collusive coalitions than in terms of any narrow economic calculus (Olson, 1982).

Fourth is the importance of *firm strategy, structure and rivalry*. Again, the two economies, North and South, would still seem to lack much of what Porter argues for in this regard. For example, he states that companies rarely succeed abroad unless there is intense competitive rivalry at home. In Northern Ireland, competition is limited and cushioned by high levels of public subsidization. In the Republic, on the other hand, foreign industry does not compete locally and indigenous industry, at least until recently, operated in partially sheltered markets due to the element of non-traded goods being produced for home consumption. Intra-island trade on the island has increased in recent years, but there again remains substantial scope for further growth of high technology two-way trade.

A focus on the North-South axis is perfectly consistent with the fact that the major external markets and sources of inward investment for both regions presently lie, and will continue to lie, outside the island. It is also consistent with the fact that even in the hypothetical situation of a single economy on the island, it would still be one of the most open economies in the world. But openness in terms of trade, in a situation where either island production is dominated by foreign multinational branch plants (as in the Republic), or where the region is dominated by declining sectors (as in Northern Ireland) is not a position of strength.

What is revealing in EU regional comparisons that focus at detailed sectoral performance is that inter-regional cooperation does not necessarily require extensive harmonization of economic policies. Rather, cooperative economic activity thrives where policy differences and national preferences are fully understood and are made more transparent against the background of removal of non-tariff barriers to trade through the implementation of the single European market. Such findings suggest that mutually-beneficial North-South as well as East-West cooperation could be built along similar lines if contentious political issues could be resolved. Indeed, the Belfast Agreement, with its three "strands", points exactly to this conclusion.

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Peter Gilleece – Innovation Paper

Briefing Paper	03 August 2006

Subgroup on the Economic Challenges facing Northern Ireland

Consideration of Evidence
Dr Peter Gilleece

Innovation

Introduction
While several themes have been identified in the discussions to date the overall message is one of change and the necessity to challenge and transform accepted working practice. From an economic perspective there are strategies that can act as drivers for innovation and these should be fully exploited. However, the presentations also emphasised the importance of innovative practice in the public sector, of changing the way we work and the approaches employed to address social and economic challenges. Adopting a new approach is fundamentally the most important reason for the success of the economy in the Republic of Ireland.

Economic Perspective
An analysis by OECD[1] of the relationship between R&D, technology dissemination and total factor productivity in the manufacturing industry, indicated that productivity is higher in those countries where R&D spending per employee is greatest and that when investment and R&D increases, productivity also increases in every industrialised country.

A factor common to successful regional economies in Europe is the key priority given to innovation, into which local R&D is a key input[2]. Regions such as Emilia Romagna, (North Central Italy), Baden Wurttemberg, (Germany) and Silicon Valley, (North California) are acknowledged as having highly successful innovation systems. They fully exploit their innovative capability and consequently enjoy the benefits of rapid economic growth and high

1 *OECD, 'Technology, productivity and job creation: Best Policy Practices', 1998, Paris.*

2 *Dunford and Hudson, Successful European Regions: Northern Ireland Learning from Others', Research Monograph 3, November 1996. Northern Ireland Economic Research Centre, Queens University Belfast.*

living standards. A more R&D intensive, innovative and knowledge driven economy tends to result in better, more sustainable jobs and higher wages[3].

Innovation does not just refer to economic strategies it is also concerned with reviewing and changing all aspects of our working practices, a point made by the Northern Ireland Business Alliance. Its importance is elevated as a result of the globalisation of competition conditions. The cost of research has soared, the life of products is getting shorter and knowledge and know-how is becoming obsolete faster. Co-operation between industrial companies and between companies, universities and governments has become a prerequisite for survival, a point echoed by Liam Nellis of InterTradeIreland.

Europe has a substantial science and public and private R&D capability (ie., the ability to create knowledge), with the inability to transfer or transform this knowledge into innovation and competitive advantage, otherwise known as the European Paradox. For example, the fax machine and the videocassette recorder were both invented in Europe in the 1950's but developed commercially in Japan in the 1970's[4]. Despite some notable exceptions many commentators believe Northern Ireland suffers from the same problem.

Academic studies have considered in great detail determinants of innovation in an industrial context[5], however the European Green Paper on innovation (1995), stresses that innovation is not just an economic mechanism or a technical process, it is above all a social phenomenon. In terms of economic development this often means the commercial exploitation of R&D activity but it also refers to the adoption of methods of working that, while not necessarily new, are radical changes to a particular organisation or sector.

Innovation in the Public Sector

The Civil Service

Innovation in the broadest sense and the broadest adaptation is fundamentally about change, a common theme with all the presentations. It is about challenging conventions and adopting new approaches. The point was made by the Northern Ireland Business Alliance that radical policy change is required if we are to change the trajectory of the local economy[6]. They believe that this requires a social partnership between the public and private sectors, business and elected representatives, trade unions and the voluntary sector. The Business Alliance highlighted a change in approach in several areas if we are to move from a public to a private sector led economy.

One of the key elements in their presentation was that public-sector behaviour can have a major influence on how the private sector develops, "If we are serious about making changes, we need a complete overview of how the public sector in Northern Ireland is run".[7]

3 *Dunford and Hudson, Successful European Regions: Northern Ireland Learning from Others', Research Monograph 3, November 1996. Northern Ireland Economic Research Centre, Queens University Belfast.*

4 *Looking South for Inspiration', Mike Smyth, Ulster Business, April 2006*

5 *Love and Roper, 'The Determinants of Innovation: R&D, Technology Transfer and Networking Effects', Review of Industrial Organisations 15: 43-64, 1999.*

6 *David Dobbin, Northern Ireland Business Alliance presentation to the Subgroup on economic challenges facing Northern Ireland. 25 July 2006.*

7 *Frank Bryan, Northern Ireland Business Alliance presentation to the Subgroup on economic challenges facing Northern Ireland. 25 July 2006.*

"The Civil Service is so good at maintaining stability it cannot be agile; it cannot transform. We must break it up with a hammer, so that those who want to get on and do things are not prevented...It will stop your best ideas coming forward, because it is designed to create stability and even out change."[8]

Change in the civil service and the public sector goes beyond structural and organisational change. At critical points in the development of the Irish economy, creative thinking and innovative approaches by civil servants have been instrumental in the development of the economy. In May 1958 the secretary to the Department of Finance, Dr T.K. Whittaker[9] delivered his report, Economic Development, to the Government, which marked a watershed in the transformation of Ireland from a mainly agricultural society into a modern, industrial based economy, integrated into European and world markets[10].

By contrast it has been argued that Civil Servants in Northern Ireland appear to be motivated primarily by a fear of appearing before the Public Accounts Committee. The recent controversy about token entertainment received by public servants only serves to make them less willing to think and act autonomously.[11]

In October 1961 a policy conference on 'Economic Growth and Investment in Education' was held in Washington, and as a by-product the conference was used to find two countries prepared to volunteer to conduct a national survey of their entire educational system[12]. Only the Irish and Austrian delegations were prepared to take the risk of exposing their country's shortcomings to the world's gaze[13]. The existence of the team and the report, published in 1965, are regarded as landmarks. The survey team assisted, inter alia, in reorienting educational policy towards a concern with the labour market needs of a developing economy.[14]

In 2003 the Department of Education and Science invited the OECD Directorate for Education to undertake a review of Irish higher education to evaluate the performance of the sector and recommend how it could better meet Ireland's strategic objectives for the sector. This initiative by the Department indicates a willingness to invite scrutiny and receive criticism in order to achieve the overriding objective of performance improvement.

Policy development and delivery

John Simpson raised the question of the delivery of strategies for innovation, R&D and training. He believes that we have lost the challenge to public sectors to deliver policy as well as to develop it. While it is unreasonable to critique individual strategies in isolation, it

8 *David Dobbin, Northern Ireland Business Alliance presentation to the Subgroup on economic challenges facing Northern Ireland. 25 July 2006.*

9 *T.K. Whittaker, a dynamic and innovative economist originally from Rostrevor, was appointed secretary of the Finance Department in 1956 at the age of 39.*

10 *'Planning Ireland's Future; The Legacy of T.K. Whittaker', John McCarthy, 1990.*

11 *'Looking South for Inspiration', Mike Smyth, Ulster Business, April 2006.*

12 *Ibid.*

13 *O'Connor, A Troubled Sky, p.63. The Washington conference was a landmark in a number of ways. Professor Guy Neave observes that the so-called 'residual theory', which attributed economic growth to that residual from industrial and commercial development which is investment in education, 'was launched upon the world at the OECD Washington Conference of 1961. Neave, G. (1982), 'On the Edge of the Abyss: An Overview of Recent Developments in European Higher Education ', European Journal of Education, vol. 17, no. 2, p.125. Cited in cited in 'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

14 *'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

would appear, from facts presented previously[15], that strategies on innovation and entrepreneurship, for example, are not having the impact they should. This may indicate a need to change how policy is delivered but also perhaps how policy is developed. There exists an ever widening experiential gulf between public policy-makers and private economic agents. How can this lead to good policy making?[16] Perhaps it may be appropriate to harness the potential of the public sector to stimulate entrepreneurship[17]. For public sector employees, entrepreneurship training and basic business skills may contribute to improved policy development and encourage entrepreneurship.

Education

The three principal features of the education system in the Republic of Ireland that have attracted industrial and service investments have been:

- The breath of the secondary school curriculum;
- The high standards of university degrees; and
- The availability of post-school training and education facilities at local level in the institutes of technology[18].

These features have their origins in the 1965 OECD report, referred to above.

Government has stated that there is a need to embed business understanding and skills in the curriculum at secondary level[19] with a strong focus on the building of entrepreneurial competencies within further education. NICVA believes that our education system places too much emphasis on acquiring skills for the economy. It would like to see greater emphasis placed on life skills, personal development and citizenship.

A key issue may be the breadth of our educational system and the efficacy of new initiatives. John Simpson reported that a common complaint from teachers in the classroom is that they can no longer expect back-up with regard to their delivery mechanisms. This issue is emphasised in the West Belfast and Shankill reports but, according to John Simpson, it has not made any difference.

The rapid progress in education development in the Republic of Ireland has been achieved without a lowering of educational standards, such as appears to have been taking place in Britain, both at secondary school examination level and also in the universities[20].

Third-level interaction with Industry

John Simpson made the point about education and training for tomorrow as well as today and the need for innovation in third level education industry collaboration: “FE colleges still, to a large extent, determine for themselves what they offer. That cannot be right.” Evidence from Dr Michael Maguire indicated that we need a top-down view and consider whether

15 *‘Issues affecting the Economy in Northern Ireland’, Peter Gilleece, Northern Ireland Assembly research paper, May 2006.*

16 *‘Looking South for Inspiration’, Mike Smyth. Ulster Business April 2006.*

17 *‘Where do we go from here’, Nora Hewitt-Dundas. Ulster Business, April 2006.*

18 *‘Huge improvement in education levels in recent years’, Garret Fitzgerald. Irish Times 26 November 2005.*

19 *‘No reason not to seize the day…’, Marie Woods, Ulster Business, April 2006.*

20 *Ibid.*

Northern Ireland needs more engineers, for example. "We need to be able to push those ideas through a responsive education system that considers its job to be one of helping to develop the economy of Northern Ireland".

The education system in the Republic of Ireland is tightly integrated with the country's FDI-orientated development strategy[21]. One of the key successes in the contribution of education to the development of the economy was the creation of the Manpower Consultative Committee. The Manpower Consultative Committee, established in 1978 as a forum for dialogue between IDA and the education system, recommended an urgent programme of expansion to alleviate existing shortages and increase output to meet projected demand from 1983 onwards. The resulting programme resulted in a sharp increase in the output of graduates in electronic and mechanical engineering and in computer science. Output of engineering graduates increased by 40% between 1978 and 1983, while the output from computer science increased tenfold in the same period.

The view of the Industrial Development Authority and Forfas, the policy advisory and co-ordination board for industrial development, in the crucial areas of the labour and skills markets, have been more likely to lead to new course initiatives, or pump priming by the Department of Education and Science or the Higher Education Authority, than any other source[22].

Conclusion

Individual recommendations taken forward in isolation will not meet the challenges facing the economy. As the economist Mike Smyth has said if the economy of Northern Ireland is to return to a more normal growth trajectory a unique or abnormal set of policies will be required. This will require creative thinking and the willingness to consider radically new approaches, as has been the case in the Republic of Ireland. Innovation is concerned with the exploitation of an idea. It therefore has to be about ambition and taking risks; it has to be about foresight and vision.

21 *'Third-Level Education, Foreign Direct Investment and Economic Boom in Ireland'. Frank Barry, Centre of Economic Research, University College Dublin. May 2005.*

22 *'Investing in People, Higher Education in Ireland from 1960 to 2000', Tony White, Institute of Public Administration.*

Peter Gilleece – Education Paper

Briefing Paper	09 August 2006

The Contribution of Education Policy to Economic Growth in the Republic of Ireland

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Summary
The contribution of formal education to economic growth in Ireland is of enormous significance. Ireland was one of the first European countries to grasp the economic importance of education and economists suggest that this upskilling of the labour force accounts for almost 1% per annum of additional national output over the last decade. The key components of this development are outlined here.

Institutes of Technology
The main components of the technical-education system developed in Ireland over the course of the 1970s were the Regional Technical Colleges (RTC), for which there was no UK model. The RTCs evolved from innovative policy development and OECD recommendations in the 1960s.

Higher education and the market
The Manpower Consultative Committee, established in 1978 as a forum for dialogue between IDA and the education system, recommended an urgent programme of expansion to alleviate existing shortages and increase output to meet projected demand from 1983 onwards.

Irish education now has an explicitly vocational component which did not exist thirty years ago. The view of government agencies is more likely to lead to new course initiatives, or pump-priming by the Department of Education and Science or the Higher Education Authority, than any other force.

Participation in education

Participation in and completion of upper secondary and tertiary education has risen phenomenally during the last four decades in the Republic of Ireland. In 1995, Ireland had an above average ratio of graduates to the population at the typical age of graduation and had a higher number of persons with science-related qualifications relative to the size of the young labour force (aged 25-34) than in all other OECD countries, including Japan. In addition, between 1990 and 1995, public spending on tertiary education institutions and on financial aid for students increased by 33% in Ireland.

Significantly, with respect to the future development of the economy, it has been argued that the most important factor determining the contribution of the education system to economic success within developed countries is the strength of the emphasis it places on sustaining a high level of performance on the part of the bottom half of the ability range. Ireland lags behind the OECD in this area.

Knowledge based economy

The Irish economy has strategically placed itself as a knowledge-based economy.

Successive surveys of foreign owned firms reveal that two of the important determinants of their decision to locate in Ireland are the availability of skilled labour and the specific skills of the workforce.

However, the growth in wealth has not been spread evenly and overcoming economic and social disadvantage remains an issue.

OECD Report

In 2003 the Department of Education and Science invited the OECD Secretariat to undertake a review of Irish higher education to evaluate the performance of the sector and recommend how it can better meet Ireland's strategic objectives for the sector.

The Report identifies new challenges, which will have to be overcome if the Government's ambitions are to be realised. The report makes a series of recommendations that call for significant structural changes.

To move from being a technology-importing, low cost economy to an innovation-based, technology-generating society requires that Irish tertiary education and research, and innovative indigenous enterprises, have to become the new drivers of economic development and of the country's international competitiveness

Technology Sourcing FDI

In part this has been in response to the growing phenomenon of technology-sourcing foreign direct investment (FDI). Technology-sourcing FDI sees firms seeking to access resources that are only available in the overseas locations targeted. Increasingly, multinational firms are setting up overseas R&D facilities where local conditions are such as to increase the likelihood of innovations emerging.

Innovation System

The likelihood depends on the local 'innovation system' – the process by which public and private-sector institutions, firms and national policies interact and coalesce to generate innovation.

Within ICT alone, the last few years have registered a number of significant developments under the new strategy. For example, IBM have announced further significant investments in its Irish R&D software facility in Dublin, influenced, according to one of the directors of the company, by the availability of the necessary skills, the strong support of the Industrial Development Agency and the growing emphasis on scientific research by Science Foundation Ireland.

Key Issues

There appear to be three key issues arising:

- Building a strong education system
- Maximising investment in research and development and
- Developing the local innovation system

These are all key to developing the capacity necessary to add value for indigenous interest, and in the longer term, be attractive to technology-sourcing foreign direct investment.

Introduction

The Irish 'economic miracle' has been the subject of much analysis, debate, and at times, controversy. Various explanations have been offered for the success of the economy including:

- Human resources and quality of education (or human capital);
- Favourable regulatory, tax, trade and investment climates favouring, among other things, direct foreign investment and new business start-ups;
- Use of industry clustering, technology transfer and supply chains;
- Stability of political and legal institutions;
- Consensus and relative industrial calm through social partnership;
- Subventions from European Union;
- Use of English language and proximity to the UK and continental European markets.

Ireland was one of the first European countries to grasp the economic importance of education and economists suggest that this upskilling of the labour force accounts for almost 1% per annum of additional national output over the last decade. The growth of tertiary education has been accompanied by a two and a half fold improvement in average material living standards. There is general agreement among representatives of Government and of tertiary education that the expansion has been enormously beneficial both to Irish society and to the economy. The common understanding and commitment to the social and economic role of tertiary education between higher education institution leaders and Government makes Ireland distinctive amongst European countries and is a source of great strength[1].

The growth in Regional Technical Colleges in the late 1960s and early 1970s in particular is widely viewed to be fundamental to the growth in the expansion of highly-skilled jobs – especially in sectors such as electronics, software, computer hardware and professional services. It is reasonable to conclude that the availability of highly skilled graduates, together with other factors, played an important facilitating role at a crucial juncture in the late 1980s and early 1990s when, fortuitously other factors started coming together including favourable world market conditions, EU support and favourable domestic wage and public spending policies[2].

This paper elucidates the role of education and skills strategies in the development of the economy in the Republic of Ireland.

Historical Background

In the late 1950's a senior civil servant, T.K. Whittaker, produced a report, Economic Development, which marked a watershed in the transformation of Ireland from a mainly agricultural society into a modern industrial based economy, integrated into European and world markets.

Observers are largely unanimous that the policy changes in the late 1950s and early 1960s saw a fundamental shift in attitude among government ministers[3]. It has also been observed that around 1963 there occurred within education a general change in emphasis, away from purely educational and language revival questions towards the social and economic dimensions[4]. The indigenous influence of the Department of Education was complemented by the external influence of the Organisation for Economic Co-operation and Development (OECD).

In October 1961 a policy conference on 'Economic Growth and Investment in Education' was held in Washington, and as a by-product the conference was used to find two countries prepared to volunteer to conduct a national survey of their entire educational system[5]. Only the Irish and Austrian delegation agreed to recommend the project to its government[6]. In co-operation with the OECD, an expert team was set up in 1962 to survey Irish education and report on its findings. The existence of the team and the report, published in 1965, are regarded as landmarks. The survey team assisted, inter alia, in reorienting educational policy towards a concern with the labour market needs of a developing economy.

1 *'Review of National Policies for Education: Review of Higher Education in Ireland', Examiner's Report. OECD Directorate for Education, Education Committee. September 2004.*

2 *Knowledge Economy Forum, 'Using Knowledge for Development in EU Accession Countries'. World Bank Conference, Paris 21 February 2002. 'Miracles do happen – The story of recent Irish economic growth'. Tom Healey. Department of Education and Science.*

3 *'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

4 *'Education and Society in Ireland 1945-70' in Lee, Ireland 1945-70, p.63. Cited in 'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

5 *'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

6 *O'Connor, A Troubled Sky, p.63. The Washington conference was a landmark in a number of ways. Professor Guy Neave observes that the so-called 'residual theory', which attributed economic growth to that residual from industrial and commercial development which is investment in education, 'was launched upon the world at the OECD Washington Conference of 1961. Neave, G. (1982), 'On the Edge of the Abyss: An Overview of Recent Developments in European Higher Education ', European Journal of Education, vol. 17, no. 2, p.125. Cited in cited in 'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

The main message of the report by the OECD examiners, published in 1964 was that economic advance required the development of technical manpower, and that in any such advance a place had to be found for technician education, regardless of whether local industry signalled a demand for it.

From having had a tiny short-cycle third-level sector before 1970, by 1981 Ireland had internationally, after the Netherlands, the highest proportion of third-level students taking sub-degree course.

Regional Technical Colleges

During the course of the 1970s it was felt that the content of technological education needed to be further upgraded and that technological and higher technician roles needed to become 'status carrying in their own right'[7]. The Universities were not viewed as the best equipped to provide this form of education for three reasons:

- Universities were concerned with fundamental and theoretical studies while technology was concerned with the practical and applied.
- There was naturally an academic bias within the university system
- The concept of autonomy was central to the functioning of the universities, while government felt the need for institutions more amenable to its control and able to respond more rapidly to changing technological and manpower needs[8].

The main components of the technical-education system developed in Ireland over the course of the 1970s were the Regional Technical Colleges (RTC), for which there was no UK model. As originally proposed, these were not envisaged primarily as institutions concerned with third-level education. The upgrading of technical education and the provision of an educational system for a largely non-existent intermediate layer of technicians, which these colleges were to provide, were considered crucial to Irish industrial expansion.

Besides the RTC's, third level vocational education was also provided through five older Dublin colleges: a college of commerce, a college of catering, a college of marketing and design and two colleges of technology. These colleges were eventually amalgamated to form the Dublin Institute of Technology in 1978. Two new National Institutes of Higher Education, loosely based on the UK system of polytechnics, were set up; the first in Limerick in 1972 and the second in Dublin in 1980.

The new NIHEs rapidly began to operate at primary degree level. This 'academic drift' was also notable in the RTCs which quickly shed virtually all of their secondary-level functions. The same pattern had been recognised with the British Polytechnics, granted university status in 1992, signalling the end of the binary system. The granting of university status to the National Institutes of Higher Education in Ireland in 1990 did not signal the end of the binary system since there remained a range of publicly-funded institutions of higher learning

7 *'Goal Enlargement and Differentiation: The evolution of the Binary Education System in Ireland', in C.Gellert (ed.) Higher Education in Europe' London and Philadelphia: Jessica Kingsley.*

8 *'Third-level Education, Foreign Direct Investment and Economic Boom in Ireland', Frank Barry Centre for Economic Research, University College Dublin, May 2005.*

that continued to be more responsive and amenable to government policy objectives than the autonomous universities.

This expansion in the system was financed with the assistance of European regional aid funds, which at the time came primarily through the European Social Fund. During the early 1990s as much as 80% of total funding for RTCs came from European Social funding[9]. A characteristic of this new tertiary sector was that socio-economic disparities were less marked than within the traditional system.

Over the course of the following decade the RTC's evolved to become an integral part of the Irish third level system. The colleges themselves argued that they be afforded university status. The 1985 Green Paper, 'Partners in Education – Serving Community Needs', considered that the actual work of the colleges had grown and changed considerably from the original RTC concept. There were also moves around this time to allow RTCs to make a greater research and development contribution in the regions. In 1998 the Regional Technical Colleges were redesignated as regional institutes of technology to reflect their changed and evolving role.

There are currently 14 institutes throughout Ireland offering education and training, both full-time and part-time, for trade and industry over a broad spectrum of occupations and levels, in the areas of business, engineering, technology, science and paramedicine. Higher education institutions are located in relation to economic Gateways and have a critical role in regional economic development. The network of institutes of technology are a major infrastructural asset because of their emphasis on technology and applied knowledge and their role in the provision of skills based education[10].

Integration of education and development strategy

The Manpower Consultative Committee, established in 1978 as a forum for dialogue between IDA and the education system, recommended an urgent programme of expansion to alleviate existing shortages and increase output to meet projected demand from 1983 onwards. The resulting programme resulted in a sharp increase in the output of graduates in electronic and mechanical engineering and in computer science. Output of engineering graduates increased by 40% between 1978 and 1983, while the output from computer science increased tenfold in the same period. Arising out of the same process the Confederation of Irish Industry established its own manpower policy committee and the director general and director of economic policy became prominent lobbyists and spokesmen on different aspects of the relationship between industry and the educational system[11]. The initial impact of this was to reinforce the emphasis on the vocational within the higher education system and also to introduce more earmarked money.

The 1996 strategy document produced by Forfas, the policy advisory and co-ordination board for industrial development, science and technology in Ireland regarded the skills and creativity of the workforce as the main determinant of the competitiveness of the enterprise

9 *Knowledge Economy Forum, 'Using Knowledge for Development in EU Accession Countries'. World Bank Conference, Paris 21 February 2002. 'Miracles do happen – The story of recent Irish economic growth'. Tom Healey. Department of Education and Science.*

10 *'Review of National Policies for Education: Review of Higher Education in Ireland', Examiner's Report. EU Directorate for Education, Education Committee. September 2004.*

11 *CII Newsletter, vol. 29, no 11 (8 August 1978); vol. 29, no. 18 (26 September 1978); vol. 30, no. 1 (21 November 1978); vol. 32, no. 1 (29 November 1979); vol. 32, no. 7 (7 January 1980). Cited in 'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

sector and saw fundamental changes occurring in the nature of skills requirement. The report was indicative of how central the country's education system had become to the success of the state's industrial policy[12].

Irish education now has an explicitly vocational component which did not exist thirty years ago. While the change centred around the non-university sector, the universities themselves adapted to the vocational imperatives which had become part of the climate.

In Ireland the interchange between higher education and the market is to a considerable extent mediated through government agencies such as Forfas and the Industrial Development Authority. The views of the IDA and Forfas, have been more likely to lead to new course initiatives, or pump-priming by the Department of Education and Science or the Higher Education Authority, than any other force.

Funding Initiatives over the past decade

It was recognised that continued economic success was dependent on the ability to respond quickly and flexibly to the skills needs of the economy. Closely associated with this is the need to ensure there is an environment that enables top-class research and development.

Because of the mobility of multinationals in sourcing the most cost-effective resources, an attachment to a particular location will depend on the value-adding capability of that location. It is against this backdrop that the Republic of Ireland identified the need in the 1990s to move economic activity further up the value chain thus enhancing its attractiveness to multinationals. Funding was therefore targeted at addressing skills and R&D needs[13].

Education profile in the Republic of Ireland

Participation in and completion of upper secondary education as a basis for entering tertiary education has risen phenomenally during the last four decades in the Republic of Ireland. In 2002 85.6% of 22 year olds in Ireland had completed upper secondary education as compared to 75.4% across the EU[14].

Over the last three decades an extraordinary expansion has occurred in third level education and participation rates. Participation in and completion of tertiary education has increased significantly to reach 26%, surpassing the OECD average of 24%. In the mid-1960s third-level student numbers were less than twenty thousand compared with almost 112,000 in 1998-1999. In 1984-85, 40% of eighteen–year olds were engaged in full-time education. Ten years later that figure had risen to 64%. Among those aged nineteen, the rate of participation had increased from 24% to 48%, a twofold increase in the space of a decade. The total number of students enrolled in tertiary programs grew by 51% between 1990 and 1995[15].

12 *'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

13 *'The Irish Education System and the Economy', Paddy McDonagh, Maine Policy Review, Winter 2000.*

14 *EU Education Report, 'Progress towards the common objectives in education and training'. CEC 2004.*

15 *'The Irish Education System and the Economy', Paddy McDonagh, Maine Policy Review, Winter 2000.*

Ireland also has a much higher proportion of graduates in mathematics, science and technology per 1000 inhabitants in the 20-29 age group, 23.2% than the EU average of 9.3%[16].

The effects of the increase in availability of, and participation in, third-level education are demonstrated by the fact that, in 1995, Ireland had an above average ratio of graduates to the population at the typical age of graduation and had a higher number of persons with science-related qualifications relative to the size of the young labour force (aged 25-34) than in all other OECD countries, including Japan. In addition, between 1990 and 1995, public spending on tertiary education institutions and on financial aid for students increased by 33% in Ireland[17].

It is widely recognised in Ireland that in the global economy of the early twenty first century, the development of the education and skills of people is as important a source of wealth as the accumulation of more traditional forms of capital. According to OECD, investment in education is as effective a form of capital accumulation as increases in physical capital[18]. Most findings from studies of the relationship between labour market earnings and initial education conclude that an additional year of schooling is likely to yield an annual ‘rate of return’ for individuals of 8-10%[19]. Similarly positive results emerge from macro-economic growth studies on the impact of additional schooling on long-term growth in GDP.

Perhaps more significantly it has been argued that the most important factor determining the contribution of the education system to economic success within developed countries is the strength of the emphasis it places on sustaining a high level of performance on the part of the bottom half of the ability range[20]. Ireland lags behind the OECD in this area[21].

The Irish pre-tertiary system is lacking with respect to the inclusion of those attaining lower levels of academic success. The 1995 OECD Economic Survey of Ireland found that “the performance of Irish schools is much more uneven than in other countries”, and suggests that “the variability of school performance may be one explanation for the large differences in student performance according to the social status of their parents”.

The Apprenticeship Scheme

The apprenticeship programme is a national one and assessment is measured against national standards. This Standard-Based Apprenticeship has led to the overhaul of the curricula of 25 trades and reflects the changes that have been taking place in relation to new technologies.

Subject-matter experts representing employers, trade unions, FÁS (Training and Employment Authority), and staff of Institutes of Technology develop curricula for each trade. Further information on the Apprenticeship Scheme is provided in the Appendix I. A critique of the UK Apprenticeship scheme against European Models is also presented in Appendix I.

16 *EU Education Report, ‘Progress towards the common objectives in education and training’. CEC 2004.*

17 *‘The Irish Education System and the Economy’, Paddy McDonagh, Maine Policy Review, Winter 2000.*

18 *ibid.*

19 *‘The Well-Being of Nations: the Role of Human and Social Capital’ Centre for Educational Research and Innovation, Paris.*

20 *‘Changes in the distribution of wages and unemployment in OECD countries’, American Economic Review, Papers and Proceedings, 86, 2, 302-308.*

21 *‘Third-level Education, Foreign Direct Investment and Economic Boom in Ireland’, Frank Barry Centre for Economic Research, University College Dublin, May 2005.*

The Irish Education System and the Economy

In just thirty years Ireland has transformed itself from an agricultural society, to a technologically based economy in which manufactured goods now account for 70% of merchandise exports. It is an economy that has strategically placed itself as a knowledge-based economy. The acquisition of knowledge and the accumulation of knowledge capital is a process that involves many actors and requires linkages between them. The formal education system, industry education links, workplace education, further education, basic and applied research, all contribute to the appreciation of knowledge capital[22].

In recent years, Ireland's competitive position has been strong. Ireland has risen swiftly from being an economic also-ran to a situation in which, in 1998, it was ranked as the world's eleventh most competitive economy by the International Institute for Management Development[23].

There is general agreement that Ireland's education provision has been one of the key factors in Ireland's economic success. Government spending on education increased from 3.1% of GNP in 1961 to 6.5% in 1993. In that period GDP had more than trebled, so spending on Irish education took larger slices of a much larger cake.

Education has continued to be viewed as a form of investment rather than consumption. Ireland in the 1990s has gone against the tide in mainland Europe, and has diverged even more from the approach in Britain[24]. The decision to abolish student fees for all full-time degrees in universities and public sector colleges meant that higher education was to be funded to an even greater extent from public funds, a reverse of current European trends, and a reassertion by the Irish state of the importance of a human capital approach to economic development. A recent OECD report has however recommended that students for first degrees be required to bear some of the costs of their higher education[25].

Successive surveys of foreign owned firms reveal that two of the important determinants of their decision to locate in Ireland are the availability of skilled labour and the specific skills of the workforce.

The International Institute for Management Development (2002) in Switzerland surveys executives across a range of countries and asks them to rank the performance of countries relative to each other. Ireland was ranked number 2 (after Finland) out of a total of 49 countries in response to the statement "the educational system meets the needs of a competitive economy".

In terms of the importance of education and skills in determining the European location of multinational companies, these factors rank second in importance after the corporation tax regime in drawing these firms to Ireland[26].

Because of the mobility of multinational in sourcing the most cost-effective resources, an attachment to a particular location will depend on the value-adding capability of that location,

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22 *'The Irish Education System and the Economy', Paddy McDonagh, Maine Policy Review, Winter 2000.*

23 *ibid.*

24 *Williams, G. (1998) 'Current Debates on the Funding of Mass Higher Education in the UK,' European Journal of Education, vol. 33, no. 1, pp. 77-87. Cited in 'Investing in People; Higher Education in Ireland from 1960 to 2000', Tony White 2001. Institute of Public Administration.*

25 *'Review of Higher Educational Policy in Ireland, OECD Education Committee September 2004.*

26 *Gunnigle, P. and McGuire, D. (2001), 'Why Ireland? A Qualitative Review of the Factors Influencing the location of multinationals in Ireland with particular reference to the impact of labour issues', Economic and Social Review, 32, 1, 43-67.*

During the 1990s the Republic of Ireland identified the need to move economic activity further up the value chain thus enhancing its attractiveness to multinationals.

Challenges facing the tertiary education sector

While there is an imperative to invest in research and development, other significant challenges remain, in particular, the inequality and participation of the older age population in higher education.

Over 90% of the expansion in higher-level education has been generated from the 18 to 20 year old cohort and has been drawn primarily, as in most European countries, from the professional and management classes. Lifelong learning, widening participation and the encouragement of mature students to enter tertiary education had not been given such emphasis[27]. The National Development Plan (2000-2006) set a priority the 'continued investment in education and training and, in particular, through developing a strategic vision for lifelong learning'.[28]

Results from an International Adult Literacy Survey in the late 1990s showed Ireland falling significantly behind most EU countries in terms of measured literacy. The difference can largely be explained by the relatively low level of educational attainment in the adult population. Most adults over the age of forty have not completed upper secondary education[29].

Disparities in Economic Activity

The growth in wealth has not been spread evenly and overcoming economic and social disadvantage remains an issue which is high on the political agenda and which education has an important role in addressing[30]. There are considerable disparities in economic activity, personal wealth and educational attainment between Ireland's regions, which the National Spatial Strategy is designed to address[31]. A major challenge of the spatial strategy is to have all of Ireland identified with major technological innovation.

A major policy objective specified in the 1995 White Paper was the promotion of equality and the combating of disadvantage and social exclusion. Subsequent legislation enshrines the promotion of equality and gender equality. However participation rates of students from economically disadvantaged backgrounds needs to be improved. Similarly, initiatives to improve participation of students with disabilities and female participation in certain areas of tertiary education remain as challenges.

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27 'Review of National Policies for Education: Review of Higher Education in Ireland', Examiner's Report. OECD Directorate for Education, Education Committee. September 2004.

28 National Development Plan 2000-2006, paragraph 5.21

29 Knowledge Economy Forum, 'Using Knowledge for Development in EU Accession Countries'. World Bank Conference, Paris 21 February 2002. 'Miracles do happen – The story of recent Irish economic growth'. Tom Healey. Department of Education and Science.

30 ibid.

31 ibid.

OECD Report on the Review of Higher Education Policy

In 2003 the Department of Education and Science invited the OECD Secretariat to undertake a review of Irish higher education to evaluate the performance of the sector and recommend how it can better meet Ireland's strategic objectives for the sector[32].

The system is now at a crossroads and the Report identifies new challenges which will have to be overcome if the Government's ambitions are to be realised. The report makes a series of recommendations that call for significant structural changes in the following areas:

- Strategic steering of the tertiary education system;
- Governance and management of higher education institutions;
- Strategic management of research, R&D and innovation and internationalisation;
- Access and participation;
- Investment in the tertiary education sector.

The report stresses the importance of maintaining high levels of investment in tertiary education without which it will not be possible for Ireland to develop the globally competitive tertiary education system and research capability that it seeks. But the education budget is under sever pressure from competing demands elsewhere in the public sector and in the education sector, where Ireland's expenditure is below the OECD average. The economic and fiscal realities facing the Republic of Ireland mean that relying on state funding alone will be insufficient.

- The National Development Plan makes clear that Ireland is facing considerable pressure for increased public investment in a number of fields other than tertiary education.
- The significant drop in the birth rate could lead to a decline in the annual cohort of second level school leavers from around 70,000 in 1990 to around 53,000 in 2015 unless school staying on rates improve considerably, particularly amongst those children from economically disadvantaged backgrounds.
- More needs to be done to widen participation in higher education to increase the mature entry and invest in lifelong learning as well as to address regional issues in line with the National Spatial Strategy.
- The need to sustain investment in research and development and to address research infrastructure issues in a co-ordinated way so that investment can be effectively and strategically managed

In conclusion the need to imbed a research culture, manage institutions better, broaden the base of funding, and redress imbalances that developed in the years of rapid growth sets a new agenda both for Government and for higher education[33].

32 *'Review of National Policies for Education: Review of Higher Education in Ireland', Examiner's Report. EU Directorate for Education, Education Committee. September 2004.*

33 *'Review of National Policies for Education: Review of Higher Education in Ireland', Examiner's Report. OECD Directorate for Education, Education Committee. September 2004*

Research

Ireland's determination to move from being a technology-importing, low cost economy to an innovation-based, technology-generating society requires that Irish tertiary education and research, and innovative indigenous enterprises, have to become the new drivers of economic development and of the country's international competitiveness[34].

Investment in research came much later than the increases in first degree numbers and began with the establishment of the Programme for Research in Third Level Institutions in 1998. The success of this programme has created a consensus that investment in research carried out in higher education institutions is a critical element in achieving and sustaining a knowledge based society with a high capacity for innovation which is at the centre of Ireland's strategy for economic development. However, a great deal more needs to be done both in terms of the size of the investment necessary and the organisational context before the research objective can be said to be met. Claims that Ireland is already world class in research in some areas may be justified but the overall research environment is not yet adequate to support the achievement of research of international quality in the range of fields necessary to promote the economic development that Ireland is looking for[35].

In research, Ireland is engaged in a catching up process which will require sustained investment over a long period. But the most recent data shows that both public and private investment, particularly the latter, is well below the EU average and a long way off the Lisbon[36] target for 2010[37].

Science, Technology and Innovation Policy

Education policy in Ireland, as described in this paper, indicates an almost exclusive focus on the supply of skilled labour. However, there has been more recently an increased emphasis on other elements of science, technology and innovation policy[38].

In part this has been in response to the growing phenomenon of technology-sourcing foreign direct investment (FDI). Traditional FDI consisted of firms setting up overseas to exploit on a larger stage the advantages such as brand names and patents that they had already accumulated, technology-sourcing FDI sees firms seeking to access resources that are only available in the overseas locations targeted. Increasingly, multinational firms are setting up overseas R&D facilities where local conditions are such as to increase the likelihood of innovations emerging[39].

The likelihood depends on the local 'innovation system' – the process by which public and private-sector institutions, firms and national policies interact and coalesce to generate innovation. The importance of developing a national system of innovation was included in the Irish Government White Paper on Science, Technology and Innovation. Investment in

34 ibid.

35 ibid.

36 See appendix II.

37 Knowledge Economy Forum, 'Using Knowledge for Development in EU Accession Countries'. World Bank Conference, Paris 21 February 2002. 'Miracles do happen – The story of recent Irish economic growth'. Tom Healey. Department of Education and Science.

38 'Third-level Education, Foreign Direct Investment and Economic Boom in Ireland', Frank Barry Centre for Economic Research, University College Dublin, May 2005.

39 ibid.

these areas increased five-fold under the National Development Plan 2000-2006. There were further developments with the launch in 1998 of the Programme for Research in Third-Level Institutions (which established 24 research centres as well as major programmes in human genomics and computational analysis), by the funding by Science Foundation Ireland of five joint partnerships between third level research institutions and industry, and by the introduction of a 20% tax credit for incremental R&D in the Finance Act 2004.

Within ICT alone, the last few years have registered a number of significant developments under the new strategy. Bell Labs announced its intention to set up a major R&D centre at Lucent Technologies' Dublin facility, linked with the establishment of a collaborative academic centre at one of the city's universities. Similarly Hewlett-Packard announced the establishment of a world-call Technology Development Centre at its manufacturing facility outside Dublin, while its European Software Centre entered into collaboration with University College Galway in establishing the Digital Enterprise Research Institute. Intel has established an innovation centre at its main site outside Dublin, has increased its investment in its research centre near Limerick and has partnered three Irish universities in an academic Centre for Research on Adaptive Nanostructures and Nanodevices. IBM, over the same period, announced further significant investments in its Irish R&D software facility in Dublin, influenced, according to one of the directors of the company, by the availability of the necessary skills, the strong support of the Industrial Development Agency and the growing emphasis on scientific research by Science Foundation Ireland. Amgen, the world's leading independent biotechnology firm, recently opted to locate its global R&D centre in Cork.

Conclusion

Investment in education is fundamental to the growth of economies whether the approach is to provide the skills and intellectual capital base to attract foreign direct investment as in the Republic of Ireland, or a model[40] of building the educational base to support indigenous interests.

In the case of the Republic of Ireland a very strong enabling environment, with skilled labour and specific skills of the workforce, was in place to complement the low level of corporation tax.

A number of key milestones have been identified over a period of forty years, which, under the right conditions conspired to produce a highly successful economy. Some key lessons may be considered from the discussion presented above.

The Education System

A consistent feature of this evolution has been the objective assessment of government policy. For example, at key junctures the Republic of Ireland have invited analysis of their education policy by the OECD. The OECD reports of 1964 and 1965 have been described as landmarks. In 2003, at a key crossroads in the development of the education system, the OECD were again invited to review higher education policy. This strategic approach has in the past ensured that there was a sound basis for the growth of economy.

40 *The Nordic countries have demonstrated remarkable success in combining global competitiveness with high levels of social welfare and environmental sustainability. Denmark, Sweden and Finland are the EU countries with the largest public investments in education. The three Nordic members also devote a significantly higher share of GDP to R&D than any of the other EU member states and have removed all barriers to business investment in universities.* ***EPC Working Paper No.20. 'The Nordic Model: A recipe for European success?' Carlos Buhigas Schubert and Hans Martens, European Policy Centre September 1995****.*

The sub-group has heard criticism of the divide between policy development and implementation in Northern Ireland. There has also been criticism of our system of educational provision[41].

Participation in education

It has been argued that the most important factor determining the contribution of the education system to economic success within developed countries is the strength of the emphasis it places on sustaining a high level of performance on the part of the bottom half of the ability range[42]. The sub-group has also heard evidence of the failings of education in economically disadvantaged areas[43].

Knowledge based economy

The formal education system, industry education links, workplace education, further education, basic and applied research, all contribute to the appreciation of knowledge capital[44].

It may be the case that the foundations upon which we hope to build the knowledge economy in Northern Ireland are appropriate, however there is no certainty and evidence would suggest that, based on delivery to date, there are failings in the system. Perhaps consideration could be given to an ambitious, targeted and comprehensive review of educational policy with specific reference to its impact on economic development, at all levels in Northern Ireland, similar to the objective scrutiny the Republic of Ireland has invited.

Higher education and the market

In the Republic of Ireland the interchange between higher education and the market is to a considerable extent mediated through government agencies. Irish education now has an explicitly vocational component which did not exist thirty years ago. While the change centred around the non-university sector, the universities themselves adapted to the vocational imperatives which had become part of the climate.

Consideration may be given to the adoption of a model similar to the Manpower Consultative Committee[45], as a forum for dialogue between Invest Northern Ireland and the education system.

41 *Official Report (Handsard), Sub-Group on the Economic Challenges facing Northern Ireland, July 2006.*

42 *'Changes in the distribution of wages and unemployment in OECD countries', American Economic Review, Papers and Proceedings, 86, 2, 302-308.*

43 *Official Report (Handsard), Sub-Group on the Economic Challenges facing Northern Ireland, July 2006.*

44 *'The Irish Education System and the Economy', Paddy McDonagh, Maine Policy Review, Winter 2000.*

45 *The Skills Strategy for Northern Ireland includes a mechanism to identify local skills needs and to advise on the response of the further education and training systems those need. A small number of employer-led Workforce Development Forums which bring together the Further Education Colleges, local public and private sector employers, the trade unions, the key training organizations, the local Invest NI offices, the Careers Service and the Employment Service. The Forums key task will be to advise the Department on the local demand for skills, and on the appropriate vocational training needs for the area. (See Appendix II)*

Challenges

The need to imbed a research culture, manage institutions better, broaden the base of funding, and redress imbalances that developed in the years of rapid growth sets a new agenda both for government and for higher education[46].

There is an overwhelming imperative to prioritise higher levels of investment in tertiary education. In common with the Republic of Ireland the economic and fiscal realities facing Northern Ireland mean that relying on state funding alone will not be sufficient. Finland, Denmark and Sweden have developed very successful economies through investment in R&D and the removal of all barriers to business investment in universities.

> *The next stage of development for the economy in the Republic of Ireland will place greater emphasis on research and innovative indigenous enterprises as the new drivers of economic development. In Northern Ireland there is a need therefore to address the barriers to business investment in universities, improve the current financial and fiscal mechanisms of support for R&D activity and reconsider our attitude to risk in the support of R&D activity.*

Technology Sourcing FDI

The change in emphasis in the Republic of Ireland has, in part been in response to the growing phenomenon of technology-sourcing foreign direct investment (FDI). Technology-sourcing FDI sees firms seeking to access resources that are only available in the overseas locations targeted. Increasingly, multinational firms are setting up overseas R&D facilities where local conditions are such as to increase the likelihood of innovations emerging[47].

Innovation System

The likelihood depends on the local 'innovation system' – the process by which public and private-sector institutions, firms and national policies interact and coalesce to generate innovation.

> *Moving towards foreign direct investment with a reduction in corporate tax may be considered a longer term goal, perhaps over 5 to 10 years. There may be a need to ensure that there is sufficient capacity to take full advantage of any new corporate tax regime.*

46 *'Review of National Policies for Education: Review of Higher Education in Ireland', Examiner's Report. OECD Directorate for Education, Education Committee. September 2004.*

47 *'Third-level Education, Foreign Direct Investment and Economic Boom in Ireland', Frank Barry Centre for Economic Research, University College Dublin, May 2005.*

Appendix I

Apprenticeship Scheme in the Republic of Ireland

The apprenticeship programme is a national one and assessment is measured against national standards. This Standard-Based Apprenticeship has led to the overhaul of the curricula of 25 trades and reflects the changes that have been taking place in relation to new technologies.

Subject-matter experts representing employers, trade unions, FÁS, and staff of Institutes of Technology develop curricula for each trade. An occupational profile of each trade is then developed containing four areas of skill:

- core (essential skills required by all craft-persons in a trade);
- specialist (applicable to specialist sectors); common (required by a trade, but also common to other trades within a family or group of trades); and
- personal (applicable to all trades and incorporating the practical application of abilities such as report writing and customer relations).

In general, the Standards-Based Apprenticeship has 7 phases consisting of 3 off-the-job and 4 on-the job (company based). The duration of off-the-job training (i.e. the total of the 3 phases) will not normally exceed 40 weeks.

The off-the-job phases are delivered by a FÁS Training Centre, an Institute of Technology or a college of education. The key factor in the delivery of an off the-job phase is that it be delivered in a single institution to ensure integration of practical training with the necessary theory/maths/science/drawing/ personal skills.

The employer must be able to provide a suitably qualified and experienced craftsperson to oversee the training and work of the apprentice as well as a suitable person who can be approved by FÁS to carry out the specified assessment required to establish the apprentice's competence.

A range of support services is provided by FÁS for employers/supervisors/ apprentices. In the case of the supervisor/tutor allotted to the apprentice, training and development in workplace assessment techniques is provided, where necessary.

Under the Standards-Based Apprenticeship the general education needs and personal development of the apprentice are included as part of the total curriculum. The necessary theory, maths, science and drawing associated with each trade are integrated with the practical skills training modules. Personal skills include the following:

- Communications,
- Customer Relations,

- Problem Solving, Planning,
- Report Writing etc.

Critique of the UK Apprenticeship Scheme

A review[48] comparing training provision in the UK with continental Europe found that, in the UK, over the 1980s and 90s young people were presented with a series of failed apprenticeship schemes, it is important to consider the reasons, presented in the paper, for this failure. The remainder of this section is comprised of material extracted directly from the paper.

- Thus (the report argues) in every other European country, offers of apprenticeship places enable individual firms to signal immediate and anticipated skills to young people. Apprenticeship structures then enable firms to meet those skill needs by appropriate training in partnership with government. By offering places, employers provide good quality information to young people and their parents on future career possibilities. Young people are thereby encouraged to invest in further education and training in a way which helps to meet skill needs and improve the probability of future employment.
- In Britain, government practice of target-setting for apprentices in terms of numbers has led to the side-lining of employers in favour of 'training providers' to whom most government funding is channelled on condition that they enable the government to meet its targets. Training providers then 'place' young people with employers with little regard to local skill needs. The prime advantage of apprenticeship as a means of signalling skill need and satisfying demand for skills has thereby been almost entirely dissipated.
- In every other European country, apprenticeship is a recognizable 'brand'. Although apprenticeship occupations differ in various ways, the national framework, underpinned by binding legislation on key features (duration, standards and assessment) provides a common identity which allows the 'marketing' of apprenticeship to employers and young people.
- Variability in duration, standards of achievement and funding are such that it is impossible to define apprenticeship in Britain except as 'some combination of paid work and training'. While other factors have contributed, this must be one of the main reasons for the chronic information failure that cripples attempts to promote apprenticeship in the UK – and which has led in the past to apprentices who did not know they were on apprenticeship schemes and widespread confusion amongst employers.
- There is ample evidence that in a small number of sectors with a tradition of apprenticeship training, schemes provided are of a good quality and produce well-qualified young people. But these sectors only account for around one fifth of young people on apprenticeship in Britain today. It is clear that the Modern Apprenticeship initiative has failed to spread good practice, as it exists in the traditional sectors, to sectors new to apprenticeship – such as Health and Social Care, Customer Service (sic), Business Administration, Hotels and Catering, Hairdressing and Retailing – which together account for around one half of all apprentice starts in Britain and for almost all female apprentices.

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48 *Benchmarking Apprenticeship : UK and Continental Europe Compared; Hilary Steedman, Centre for Economic Performance, London School of Economics, September 2001.*

- This failure only serves to underline the fatal weakness of a nonstatutory framework for apprenticeship, compounded by a rush to fulfil government targets with little regard to quality or local skill requirements. But it should not be assumed that all is well in the 'traditional' apprenticeship sectors where standards are high. Employers in these sectors are being damaged by the weaknesses of the scheme as a whole. Well-qualified recruits to apprenticeship are difficult to find, information about the excellent opportunities does not reach its target population and employers are unable to access government funding for apprenticeship in areas where total funds available have already been allocated elsewhere.
- The report concludes that 'the result, overall, is that apprenticeship in Britain, judged as a programme, falls short of that provided elsewhere in Europe on every important measure of good practice'.
- Immediately, therefore, one key characteristic of the British system – that it is driven from the top down by government targets not upwards by employer needs – is highlighted as a source of difficulty. Simply, there is a huge difference in ethos between a system (as in the UK) in which government pays providers to persuade employers to offer placements and one (as in Europe) in which employers assess their own future skill needs, recruit their own apprentices accordingly, and then pay training providers to supply the necessary off-the-job training elements[49].

In the German dual system training is much more closely linked with demands of the economy. It is argued that what is needed is a simple and coherent demand-led system which is co-ordinated and can operate within the market. Also, the perception is that policy-makers position vocational training as an alternative to education for 16-19 year olds. In the German-speaking dual-system countries apprenticeships are not primarily seen as a way of providing for all low attainers. For this purpose there are other more suitable work-based programmes. Its primary aim is to renew the national skills base and develop the skills of young people. However, many young people with fairly modest academic attainments find an apprenticeship place and benefit from apprenticeship in the dual system.

Germany – the dual system

By far the greatest majority of youngsters in Germany - around 70 percent of school leavers every year - learn an official state-recognized trade in what is known as the dual system of vocational training. Theoretical knowledge is gained in vocational schools and practical training takes place directly at the place of work or in special training facilities. This combination of theoretical knowledge and practical expertise guarantees the internationally recognized high level of qualification of German craftsmen and skilled labourers.

The occupations for which training is provided in the dual system are determined in close cooperation between central government, the states and industry and employee associations alike. The contents are geared to the requirements of the labour market, and extensive theoretical qualifications ensure that the youngsters enjoy a high degree of mobility in their profession.

49 *Evaluation of Modern Apprenticeships and National Traineeships in Wales. A Report to the National Council for Education and Learning Wales. BMG Ltd, June 2003.*

Depending on the occupation, training takes 2-3 years. The training institutions pay trainees an allowance. The dual system is financed by the companies involved (trainees' allowance) and by the state (which covers the costs for vocational schools). The dual system differs in two respects from the purely academic vocational education customary in many other countries: Learning takes place on 3-4 working days in companies, and on 1-2 working days in vocational schools. Larger firms provide training in their own training workshops and at the workplace. Trainees in smaller enterprises are trained right on the job. Where firms are too highly specialized to be able to impart all the necessary knowledge they are supported by inter-company training centres. Certain aspects of training may also be taken over by other firms.

The task of instruction at vocational schools is to support and supplement on-the-job training with specialized theoretical training and to broaden young people's general knowledge. Two thirds of classroom instruction is focused on specialized training, and one third on general education. In 2002, there were 1.8 million young people attending schools of this kind. Those under the age of 18 who have no traineeship contract in their pocket but are legally required to attend school part-time can also attend vocational schools.

The dual system is constantly being advanced further to include new occupations and modernized training for existing professions. Over the past few years, new occupations for which training is required have emerged specifically in the fields of IT and the media.

Vocational training is currently provided in approx. 350 recognized occupations by around 643,000 firms in all sectors of business, in the public sector as well as by the independent professions. In 2002, 1.6 million trainees made use of this offer in Germany. There are quite clearly delineated characteristics: more than 50 percent of all boys and more than 70 percent of all girls opt for just 20 of the 360 occupations for which training is required[50].

Workplace apprenticeship is the fundamental principle of vocational training in Germany and is though to combine the most favourable conditions for developing skills[51]. The dual system is successful for two principle reasons:

- There is a proper balance between the process of acquiring vocational qualifications and that of acquiring academic knowledge; and
- The system does not have to compete with any other training programmes e.g. in reacting to the labour market education systems tend to establish other schemes which creates "upward competition" through higher-level training programmes[52].
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50 *Please note that this is taken verbatim from The Dual System - http://www.tatsachen-ueber-deutschland.de/536.0.html*

51 *Tremblay, D.G. and Le Bot, I. (2003). The German Dual Apprenticeship System, Analysis of its Evolution and Present Challenges. University of Quebec, Research Note No 2003-4A.*

52 *Ibid, p. 39.*

Appendix II

The Lisbon Strategy

The Lisbon Strategy was re-launched on February 2005 to focus on two tasks – delivering stronger, lasting growth and creating more, and better jobs. Within this programme the design and implementation of macreconomic and microeconomic employment policies lies primarily with the member states under their national reform programmes[53]. The Community contributes to the economic and employment policy by completing the internal market and by implementing common polices and activities that support and complement national policies[54]. The "Community Lisbon Programme" was produced as a counterpart to the national programmes and covers all actions at Community level. The programme consists of 50 initiatives (regulatory actions, financing actions and policy development) which have been or will be taken at EU level to refocus the EU's economic reforms agenda on growth and jobs. The policy measures of this programme fall under three areas:

- Knowledge and innovation for growth;
- Making Europe a more attractive place to invest and work; and
- Creating more and better jobs

The Community has grouped the 50 initiatives under on a number of key actions with high added-value:

- support of knowledge and innovation in Europe,
- the reform of the state aid policy,
- the improvement and simplification of the regulatory framework in which business operates,
- the completion of the Internal Market for services,
- the completion of an ambitious agreement in the Doha round,
- the removal of obstacles to physical, labour and academic mobility,
- the development of a common approach to economic integration,
- the support of efforts to deal with the social consequences of economic restructuring.

53 *http://ec.europa.eu/growthandjobs/annual-report_en.htm*

54 *Commission of the European Communities. Communication from the Commission to the Council and the European Parliament. Common Actions for Growth and Employment: The Community Lisbon Programme. COM (2005) 330 final.*

An interim report[55] in January 2006 identified four priority areas where more action is required:

- More investment in research and innovation
- More support for SMEs
- Support for employment policies that help those people to work who want to work e.g. older people
- The development of a European energy policy

In 2001 Education ministers made a contribution to the Lisbon Strategy by adopting a report on the future objectives of education and training systems[56]. The three strategic objectives are:

Objective 1: Increasing the quality and effectiveness of education and training systems in the European union

- Improving education and training for teachers and trainers
- Developing skills for the knowledge society
  - Increasing literacy and numeracy
  - Updating the definition of basic skills for the knowledge society
  - Maintaining the ability to learn
- Ensuring access to ICTs for everyone
  - Equipping schools and learning centres
  - Involving teachers and trainers
  - Using networks and resources
- Increasing the recruitment to scientific and technical studies
- Making the best use of resources
  - Improving quality assurance
  - Ensuring efficient use of resources

Objective 2: Facilitating the access of all to education and training systems

- Open learning environment
- Making learning more attractive
- Supporting active citizenship, equal opportunities and social cohesion

Objective 3: Opening up education and training systems to the wider world

- Strengthening the links with working life and research, and society at large
- Developing the spirit of enterprise
- Improving foreign language learning
- Increasing mobility and exchanges
- Strengthening European co-operation

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55 *"Time to Move Up A Gear" The European Commission's 2006 Annual Progress Report on Growth and Jobs*

56 *Council of the European Union. Brussels, February 2001, 5980/01. Report from the Education Council to the European Council "The concrete future objectives of education and training systems"*

Peter Gilleece – Economy Paper

Briefing Paper	16 May 2006

Issues Affecting the Economy in Northern Ireland

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Research and Library Services

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Introduction

While levels of unemployment in Northern Ireland are at a record low (4%) and there is continuing economic growth the consensus view is that Northern Ireland needs a significant additional policy boost to rebalance the economy. Progress is considered to be insufficient to catch-up with other regions or the GB average[1].

One quarter of our children (100,000) live in poverty, one quarter of our households derive 80% of their income from benefits and our economy is dependent on a £6bn annual subvention. Globally, we could see Eastern European growth repeat the damage to employment that followed the rise of the Asian economies (30,000 job losses alone on textiles and shipbuilding). Against this background, the private sector needs to create a further 141,000 jobs to provide employment for a growing workforce. In terms of developing a more sustainable and balanced economy (with a public/private sector mix achieving the UK average) private sector gross value added needs to treble in size[2]. It is the view of the CBI in Northern Ireland that something radical needs to be done, yet, "we are handed the same economic tools as the rest of the UK with which to achieve this economic miracle".

If one accepts the argument that the current structure of the NI economy is the result of a wholly unique set of conditions over the past 30 years, then it can be argued that what is

1 *John Simpson, 'Being enterprising about more enterprise', Ulster Business, April 2006.*

2 *Declan Billington, Chairman CBI Northern Ireland, 'CBI Chariman stresses need for radical economic strategy'. CBI News Release March 2006*

required to return the economy to a more normal growth trajectory is an equally unique or abnormal set of policies[3].

Policy Options

Within Europe, the Republic of Ireland ranks second to Poland in terms of total entrepreneurial activity but, unlike Poland, the RoI has a GDP per capita which is more than 20% above the EU average. Twenty years ago, GDP per capita in the RoI was about three quarters of the EU average and servicing the national debt took up 94% of tax revenue. The RoI was described by the Economist as a country where: "...the government is over borrowed, the people over taxed and the economy under performing". Ten years later the Economist described the same economy "as amongst Europe's most enviable achievements".[4]

The policies that brought about this transformation included 'A Partnership for Progress', a more stable and credible macroeconomic stance, expenditure cutbacks, wage restraint in return for tax cuts, investment in education, sensible use of structural funds and a targeted strategic approach to attracting foreign direct investment. While these policy changes were introduced in the early '80's in terms of fiscal reform they may be traced back to initiatives taken in the '60's in terms of investment in education[5].

The Economic Vision statement for Northern Ireland stated that improved economic performance can be driven by the provision of:

1. A better economic and social infrastructure;
2. Arrangements to ensure that employees have an adequate skills base;
3. Entrepreneurs and businesses who seek opportunities to be innovative and apply the latest knowledge from research and applied technology achievements; and
4. Encouragement for the creation of more enterprises or the expansion of existing enterprises.

According to Mike Smyth, senior lecturer in economics at the University of Ulster, there are four possible policy options[6]:

- The status quo, i.e. NI continues to depend on public expenditure for maintaining living standards. The problem with this option is that over the medium to long term, public expenditure growth will be constrained and so therefore will economic growth and living standards, other things being equal.
- Enhanced capital allowances and/or R&D tax credits: there have been some hints recently that NI might receive some enhanced capital allowances and R&D tax credits. The prospect of enhanced R&D tax credits is more attractive, not least because it might enhance NI's relative attractiveness to foreign investors. Some months ago, Amgen opted to locate its global R&D centre in Cork. NI was not a feasible location option for Amgen but with the carrot of, perhaps, a 300% tax credit might have changed that.

3 *Mike Smyth, 'Economic Outlook and Business Review', First Trust Bank, April 06.*

4 *Liam Nellis, CE Intertrade Ireland, 'Growing an Enterprise Culture', Ulster Business, April 2006.*

5 *ibid.*

6 *Mike Smyth, 'Economic Outlook and Business Review', First Trust Bank, April 06.*

- A corporation tax concession to match that of the RoI: there has also been much talk recently of NI being granted a corporation tax break to rival the RoI's 12.5%. If this issue was dealt with solely in an economic or fiscal manner, then there is little likelihood of it ever happening. The Treasury will simply not countenance it. It has been argued by the advocates of this policy option that the chances of getting such a tax break depend primarily upon achieving a sustainable political accommodation.
- High level north-south industrial development co-ordination. Northern Ireland is well placed to capture some of the positive economic spillovers from the very rapid growth of the RoI's economy.

The CBI believes that Northern Ireland must 'trade' its way out of these problems. Both the Industrial Task Force and the Business Alliance have proposed actions, including significant fiscal incentives to attract FDI and encourage higher levels of indigenous investment. "Whilst government strategies on skills and innovation are welcome, only by combining indigenous growth and high quality FDI can we meet the projected employment deficit".[7]

Economist John Simpson believes that Northern Ireland needs the strength of all the 'drivers' of economic expansion. "This is much more than a mixture of politics and tax improvements. It will, in reality, call for a radical series of initiatives to build more successful outcomes and, start to catch up with other competitive knowledge-based regions" [8].

Public sector v Private sector

According to Mike Smyth, it is a myth that we need to cut the size of the public sector in Northern Ireland[9]. The public sector in the RoI is 33% larger than it was in 1988. The private sector is more than twice its size over the same period. "The task for economic development policy in NI for the foreseeable future is to achieve rapid growth in private sector activity, not to cut the size of the public sector per se".

The public sector is dominant in the Northern Ireland economy. The public sector equates to 61% of GDP compared to the UK average of 42% and 28% in the Republic of Ireland. Public sector, retail and hospitality account for 64% of all jobs, with the public sector employing one in three of all workers and 60% of all females in employment, with public sector wages 103% of the UK average.

The private sector presents a different picture. Of Northern Ireland's 53,770 VAT-registered businesses, 31% are agricultural and 89% employ fewer than 10 people. Only 200 businesses have more than 200 employees and 65 employ more than 500 workers. Private sector wages are 83% of the UK average and are actually falling relative to the rest of the UK.

However Philip McDonagh, chief economist with Pricewaterhouse Coopers believes the picture is far from bleak, as long as existing levels of public expenditure are sustained. With a £14.7bn infrastructure programme commencing and one of the few growing workforces in the EU, there should be a continued boost to investment and no shortage of labour to deliver

7 *Declan Billington, Chairman CBI Northern Ireland, 'Ulster Business, April 2006.*

8 *John Simpson, 'Being enterprising about more enterprise', Ulster Business, April 2006.*

9 *Mike Smyth, 'Economic Outlook and Business Review', First Trust Bank, April 06.*

it. "That situation would become even brighter if there was a managed transition from public sector domination to an economy that was private sector-led".[10]

Entrepreneurship and Innovation

Entrepreneurship and innovation are now firmly established on the private and public sector agendas as priorities for economic growth. It is three years since the launch of strategy documents designed to embed entrepreneurship and innovation in economic development. The key focus of the 'Accelerating Entrepreneurship Strategy' was to increase entrepreneurship. The Regional Innovation Strategy, 'think, create, innovate' was broader in its objectives, emphasising increased innovation alongside greater networking and more coherence to innovation policy and investments[11].

In respect of entrepreneurship the latest figures from Global Entrepreneurship Monitor (GEM)[12] suggests that some improvement has occurred. However Northern Ireland remains 9th out of the 12 UK regions in its level of entrepreneurial activity. In 2004, 5% of adults in Northern Ireland were engaged in starting or operating a new business. This compared to 6.3% across the UK, 7.7% in the Republic of Ireland and 11.3 % in the USA[13].

The most recent data on innovation activity places Northern Ireland 10th out of the 12 UK regions. This is a drop from 6th place in 2000. Although the number of firms in Northern Ireland innovating has increased, this has been below the national rate[14].

A key determinant of innovation activity is investment in research and development (R&D). Spend on R&D by businesses in Northern Ireland, as a proportion of value added, is 0.8% compared to a UK average of 1.4%. More than 60% of R&D spend by businesses is by firms with more than 100 employees[15].

Levels of university-business collaboration, a key objective of the Innovation Strategy remain low. Only 2.2% of R&D spend by the Northern Irish Universities is derived from UK businesses (compared to 5.5% across the UK). It appears that despite research excellence in industry-focused areas such as engineering, built environment and biomedical studies, firms aren't taking full advantage of this[16].

Relative to investment in R&D universities in Northern Ireland are the least efficient of the 12 UK regions in the number of patent applications and non-software licences granted and in their intellectual property income from large commercial organisations. The universities perform slightly better in terms of income from small and medium-sized firms and the number of spin outs (7th and 8th place respectively)[17].

10 *Philip McDonagh, 'Cup half empty, or half full?', Ulster Business, April 2006*

11 *Dr Nola Hewitt-Dundas, 'Where do we go from here?', Ulster Business, April 2006.*

12 *The Global Entrepreneurship Monitor (GEM) research program is an annual assessment of the national level of entrepreneurial activity. Initiated in 1999 with 10 countries, GEM 2005 will conduct research in 39 countries.*

13 *Dr Nola Hewitt-Dundas, 'Where do we go from here?', Ulster Business, April 2006.*

14 *ibid.*

15 *ibid.*

16 *ibid.*

17 *ibid.*

Conclusion

This paper has elucidated just some of the issues relevant to the development of the economy in Northern Ireland. The challenge for economic policy in Northern Ireland is to assist the transition to a higher performance economy. The challenge is considerable: a low growth, low productivity, low innovation economy has powerful self-reinforcing barriers to change.

There appears to be general agreement among business leaders that we need to concentrate on the crucial areas of building skills and supporting innovation.

Leslie Morrison, Chief Executive Invest NI, believes that Northern Ireland must play to its strengths – a young, well-educated and adaptable workforce; the high-quality research base in our universities; a telecommunications infrastructure which offers 100% broadband access; our near-shore locations for North America and Europe and our world time-zone centrality; our excellent system of commercial law and protection of intellectual property and an environment which is supportive of, and responsive to, the needs of business. “The challenge is to utilise all of these factors to create a dynamic and enterprising environment where local businesses have the confidence and competence to succeed in markets outside of Northern Ireland….delivering class economy in Northern Ireland will be achieved through the effective interaction of partnerships amongst business, government, academia and elected representatives”.

Prof Harris – Assessing the Case for a Higher R&D Tax Credits + ERINI Statement

Executive Summary[1]

1 The main aim of this research is to assess the case for a higher rate of tax credit for stimulating R&D expenditure in Northern Ireland based on the available evidence and in the context of market failure.

2 The agreed programme of work comprised three stages: (i) determining which plants/firms undertake R&D; (ii) modelling the impact of R&D on productivity; and (iii) undertaking surveys (telephone and interview-based) of firms in Northern Ireland to obtain more in-depth information on what determines the level of R&D undertaken. Stages (i) and (ii) relied on the secondary data available, and in particular being able to obtain a plant level dataset from merging the Business Enterprise R&D database (BERD) and the Annual Respondents Database (ARD) for Northern Ireland. Stage (iii) relied on being able to draw a representative sample from the population of firms operating in Northern Ireland in 2004 (the most recent year for which data is available).

3 The main body of this report provides a review of the literature on what determines which plants engage in R&D, the role of business R&D in terms of its link to innovation and productivity (often denoted as the direct effect) and also its link to the concept of absorptive capacity, knowledge spillovers, and wider system impacts (denoted the indirect or 'second-face' of R&D). Following this literature review, we look at the level and type of R&D that is undertaken in Northern Ireland with comparisons made against similar data for the UK and (where available) the Republic of Ireland. The third major strand of this report is then to econometrically model the determinants of R&D expenditure in Northern Ireland vis-à-vis other UK regions, using data from the 2001 Third Community Innovation Survey (CIS3). This is followed by econometrical modelling of the BERD-ARD database to consider the impact of tax credits on the user cost of R&D spending, and the link between this 'user cost' and the demand for R&D in Northern Ireland. From this, we can estimate the responsiveness of R&D demand to changes in tax credits. Lastly, we estimate the impact of R&D on (total factor) productivity in Northern Ireland plants for 1998-2003, to measure the extent to which R&D enhances productivity levels.

4 Having obtained estimates using secondary data (the CIS3 and BERD-ARD datasets) of what determines R&D in Northern Ireland, and the impact of R&D on productivity, the results from a telephone survey undertaken during July-September 2005 of some 250 firms in Northern Ireland are analysed. This provides more in-depth analysis of what factors determine which firms undertake R&D and which do not.

1 *The full submission can be downloaded from the following location: http://www.erini.ac.uk/dsp_publications.cfm/publication_key/2133/*

5 The final part of this report comprises the case for policy intervention with regard to government providing incentives to private sector firms to undertake R&D. We look at the market failure arguments for intervention, as well as alternative policy options (such as fiscal incentives and direct subsidies to R&D). Linking this discussion to the results obtained in this report allows us to draw policy-relevant conclusions and make recommendations with regard to the case for a higher rate of R&D tax credit in Northern Ireland.

Business Spending on R&D in Northern Ireland

6 Northern Ireland's share of UK R&D spending is significantly below what might be expected given its share of national GDP. Thus, Northern Ireland's spending on business R&D as a percentage of GVA was on average around 0.6% p.a. between 1995-2003; the comparable UK figure was 1.4% p.a.

7 R&D spending as a percentage of GDP in the Irish Republic was between 3.1 (in 1993) and 1.5 (in 2001) times greater than the Northern Ireland figure for R&D intensity.

8 In terms of the type of business R&D undertaken (i.e. intramural vis-à-vis extramural), the largest difference between the UK and Northern Ireland is the relative amount spent on extramural R&D (i.e. work contracted out to other organisations; including those located overseas whether private firms of government establishments, laboratories or universities) – around 3-5% in Northern Ireland while around 14-16% of total spending in the UK is on extramural R&D. Moreover, less than one-fifth of extramural spending by Northern Ireland companies goes overseas, while nearly one-half of all UK extramural spending is located internationally (i.e. the UK as a whole is more internationally orientated).

9 Looking at the distribution of R&D across industries, over 43% of R&D spending in Northern Ireland was attributed to the Radio, Television and Communications equipment sector. This sector was not particularly large in terms of the regional economy and while it had a relatively high R&D intensity, the latter was not significantly different to that of the UK for this industry. The Republic of Ireland also specialised in this sector but to a much lesser extent than its concentration on the Computer Software sector (which accounted for some 41% of all R&D spending in 2001). The most important sector for R&D in the UK was Pharmaceuticals, Electrical Machinery and Aerospace; in Northern Ireland this sector was a major contributor to the regional economy (accounting for nearly 13% of GVA in 2001) but R&D spending in this sector was much lower, and more importantly R&D intensity was some 15 times smaller than in the UK. In summary, Northern Ireland had a significantly different pattern of R&D spending across industrial sectors vis-à-vis the UK (and to a lesser extent the Republic of Ireland, when Computer software is excluded), which in part reflects its different industrial specialisations, its narrower industrial base, and generally its lower R&D intensity in those industries which were most important to the local economy.

10 As to the type of R&D undertaken, Northern Ireland undertakes much less 'blue skies' basic research vis-à-vis the UK and the Irish Republic.

11 In terms of sources of funding for R&D, in Northern Ireland most funding comes from within the enterprise. In recent years there has been a reduction in funding from the parent company, with more resources having to be raised from local operations (this mostly reflects

a decline in R&D undertaken by externally owned plants in Northern Ireland rather than a shift of spending from external to internal sources from within the multiplant firm). UK plants as a whole obtain a much larger proportion of funding from outside the enterprise (i.e. other firms operating in the national economy) and especially from overseas sources. Thus in general, since plants in Northern Ireland are much more dependent on generating funds internally in order to undertake mostly applied and experimental R&D, this would suggest that raising finance is subject to greater resource constraints (especially during economic downturns) than would generally be the case for plants in (for example) the South East of England. And since there is little evidence to suggest that R&D spending in Northern Ireland is over-concentrated in externally-owned plants (vis-à-vis the UK or the Irish Republic), while R&D spending in Northern Ireland is relatively more concentrated in small companies (employing less than 100 employees)[2], this dependence on internally generated funds would suggest there may be a significant market failure in the provision of funds to undertake R&D in Northern Ireland if the demand for R&D spending was to significantly increase.

The Determinants of R&D Spending

12 This chapter uses establishment-level data from the UK Community Innovation Survey for 2001 (CIS3) to look at which establishments undertook R&D and how much was spent on R&D. The latter is defined as spending on intra- and extramural R&D plus the acquisition of other external knowledge. In terms of the percentage of establishments undertaking such spending in 2000, the Northern Ireland figure for manufacturing was 14.4% (the total for the UK was 18.6% of establishments), and 6.9% for services (9.7% in the UK). Thus, the Northern Ireland percentage was only 77.6% of the UK figure for manufacturing, and 70.8% of the UK figure for services.

13 In terms of the amount spent on R&D per employee for those establishments where R&D > 0, the Northern Ireland figure was £783 per employee (or 26.7% of the UK level of expenditure per employee) for manufacturing, and £463 per employee (or 22.9% of the UK level) for services. Thus, while Northern Ireland had fewer establishments spending anything on R&D, the biggest difference is the amount spent per employee with establishments in the Province who spent anything devoting much less to the amount that was spent.

14 In modelling the determinants of R&D expenditure using CIS3 data for the UK as a whole, separate models are estimated for manufacturing and services and a two stage approach is taken. The first stage is to estimate a model of what determines whether R&D is undertaken or not while stage two then estimates how much is spent on R&D per unit of sales, conditional on stage one. This approach thus recognises that those that spend on R&D are not a random sub-set of all establishments; rather, modelling R&D intensity (spending per unit of sales) needs to take into account that those with non-zero spending levels have certain characteristics that are also linked to how much is spent.

15 The major results for the manufacturing sector relating to whether R&D is undertaken or not are as follows: firstly, the size of the establishment has a major impact with larger establishments much more likely to overcome barriers to undertaking R&D. Given that

2 Although nearly three-quarters of spending is undertaken in the largest companies (as is the case in the UK as a whole)

Northern Ireland had fewer of the largest sized establishments is suggestive of why a lower number undertook any R&D in Northern Ireland vis-à-vis Great Britain, although the difference in the size distributions was not that significant, and thus this is not a major factor in explaining why R&D was *relatively* lower in the province.

16 Sector also mattered, and since Northern Ireland specialised more than Great Britain in especially Food & Drink, this leads to lower numbers undertaking R&D in Northern Ireland. The results from the model also show that exporting to national and especially international markets is associated with a significantly higher likelihood of undertaking R&D. Given that Northern Ireland manufacturing establishments were less likely to sell to national markets (less than 23% compared to 48% for the UK as a whole), this has a major impact on the propensity to undertake R&D.

17 Absorptive capacity is highly important in determining whether an establishment engages in R&D spending. Given that the mean value of this variable is much lower in Northern Ireland, absorptive capacity plays a major role in explaining why fewer establishments undertook any R&D in the Province.

18 Establishments that received public sector support are nearly 8% more likely to spend on R&D compared to those not receiving assistance. The proportion of establishments receiving support in Northern Ireland was over 2½ times greater than for the UK overall, suggesting that without such differential levels of support the proportion of establishments undertaken R&D would have been significantly lower in the Province.

19 Note, other variables that are initially included in the model, determining whether R&D took place or not, were either not significant (and thus were excluded from the final version of the model), or there was no significant difference between Northern Ireland and the rest of the UK with respect to such variables (i.e. they have no power in explaining why Northern Ireland had lower numbers of establishments undertaking R&D).

20 As to what determines the level of R&D spending per unit of sales, the second stage model for the UK showed that establishments that only ‘buy-in’ R&D have significantly lower levels of R&D spending (over 52% lower); those establishments engaged in ‘buying-in’ and cooperating, but no intramural spending, also have lower levels of R&D spending (over 51% lower). In contrast, those engaged in intramural spending and ‘buying-in’ or cooperating with others in joint R&D projects have (*cet. par.*) the highest levels of R&D spending (those involved in ‘make’ and ‘buy’ activities spent around 122% more on R&D per unit of sales; those involved in cooperation as well had 88% higher intensity levels). Thus, R&D intensity was significantly higher when the establishment engages in intramural spending; and combining this with other forms of R&D spending is associated with the highest levels of R&D, implying that different forms of R&D activities are complimentary as long as the firm itself engages in internal spending. When R&D dose not include any direct spending within the establishment, then such activities tend to be substitutes and overall spending on R&D per unit of sales is significantly lower. In Northern Ireland, a larger proportion of establishments were engaged in only ‘buying-in’ R&D, while significantly fewer were engaged in complimentary ‘make and buy’ activities.

21 The results also show that those that undertook continuous R&D spend (*cet. par.*) around 154% more per unit of sales, compared to those only involved in intermittent activities. Fewer Northern Ireland establishments were involved in continuous R&D activities, but the difference with the rest of the UK was not large.

22 We also find that conditional on having overcome ‘entry barriers’ to R&D, larger plants spend *less* on R&D per unit of sales. That is, the nature of R&D in larger firms is likely to be more process (than product) orientated and therefore required lower levels of relative spending. Since the Province is more dependent in manufacturing on the largest establishments, the overall impact of size is negative in Northern Ireland (i.e. the size distribution is overall related to lower R&D intensity, *cet. par.*).

23 Overall industrial structure has a negative (relative) effect in Northern Ireland on R&D intensity, particularly given the dependence in the Province on the Food and Drink and Paper industries where spending per unit of sales was low.

24 Whether the plant belonged to a multi-plant enterprise operating in more than one region has a substantial negative impact on R&D intensity; Northern Ireland had fewer establishments belonging to multi-plant firms, and this helped to increase R&D intensity in the Province.

25 Absorptive capacity is highly important in determining whether an establishment engaged in R&D spending; it is also important in determining R&D intensity, but with a much smaller relative effect compared to its role in overcoming barriers to undertaking R&D. Given that the mean value of this variable was lower in Northern Ireland, absorptive capacity plays some role in explaining why R&D spending per unit of sales was lower in the Province.

26 The more industrial diverse the local authority area in which the establishment operated (i.e. the greater the number of industries located there), the lower is R&D intensity. Thus, given the lower level of industrial diversification in Northern Ireland, R&D intensity was significantly increased through this particular effect.

27 Establishments that received public sector support spend (*cet. par.*) around 148% more on R&D per unit of sales compared to those not receiving assistance. The proportion of establishments undertaking R&D and also receiving support in Northern Ireland is over 3.8 times greater than for the UK overall (in fact nearly all establishments with R&D > 0 received support), suggesting that without such differential levels of support R&D intensity would have been significantly lower in the Province.

28 Turning to the results for non-manufacturing, in Northern Ireland less than 10% of total R&D spending in 2001 was in the service sector (the comparable figure for the UK was nearly 26%). Moreover, we find that the results across the manufacturing and non-manufacturing sectors are broadly similar with respect to the impact of the key determinants of R&D.

The Impact of R&D Spending on Productivity

29 In this chapter we consider the impact of the enhanced R&D tax credit on the ‘user cost’ (or price) of R&D expenditure and then the relationship between the ‘user cost’ and the demand for R&D. This establishes how firms are expected to respond to any change in the cost of undertaking R&D through a reduction in its price. We then consider the impact of R&D

spending on output from the supply-side, by estimating the 'knowledge' production function. Having established how much output is increased by R&D spending, and knowing how responsive such spending is to changes in the price of R&D, it is possible to determine whether an enhanced R&D tax credit would likely have a positive impact on economic activity (i.e. production) in Northern Ireland.

30 The short-run (i.e. dynamic) results show that when there are changes in the 'user cost' or output, the stock of R&D adjusts very slowly over time. The results imply that full adjustment to the equilibrium takes about 6.5 years. In terms of the long-run (equilibrium) results, the own-price elasticity of R&D with respect to its price is found to be −1.36. Thus, taking this estimate of the Northern Ireland elasticity and the fall in the 'user cost' of around 11% associated with the introduction of enhanced tax credits (in 2001), this implies that (*cet. par.*) the long-run R&D stock should rise by some 15% in the Province. The short-run impact is much smaller (only about a 2.3% rise p.a. assuming nothing else changes).

31 As to the impact of R&D spending on output, separate equations are estimated for different manufacturing industries. Spillovers from R&D are also included. In terms of the steady-state (i.e. equilibrium, long-run) results, we find that the R&D stock has a positive impact on output in every industry except the Textiles sector; the result of a 10% increase in the R&D stock ranges from a 0.3% increase in output in Clothing through to a 1.7% increase in the Food & Drink sector. In addition, plants with a zero R&D stock experience significant one-off negative productivity effects, ranging from −7% in Chemicals to −62% in Food & Drink (although there is no significant effect in the Textiles, Clothing, Non-metallic Minerals, and Fabricated Metals sectors). Spillover effects are largely absent.

32 To provide an overall assessment of the importance of R&D in increasing productivity in Northern Ireland, we make use of the following scenario: an increase in the enhanced R&D tax credit for SME's from the current 50% to 100% (and an increase for larger firms from 25% to 50%). Based on our results for the impact of the 'user cost' of R&D on the demand for R&D, these changes would lower the 'user cost' as at 2003 by 12.4% for all manufacturing plants. In the long-run (no supply-side constraints), this would result in a rise in the demand for the R&D stock by nearly 17% (in the short-run the initial effect in year 1 would be an increase in demand of 2.6%).

33 In terms of the output effect of this fall in the price of R&D, we consider two scenarios: (i) only plants undertaking R&D benefit; and (ii) the fall in price induces an additional 10% of plants to start spending on R&D. If only those plants undertaking R&D were to increase their R&D stock, the increase in gross output would be around £152.1m (in 2000 prices), or 1.4%. If an additional 10% of plants also start to spend on R&D we estimate the total increase in output would be about £398.8m, or 3.8%. In terms of the cost to the Government of this exercise, we estimate that the increased public subsidy would be £17.3m (in 2001 prices). We also estimate that under scenario 1 the increased corporation tax bill from the increase in output would be about £7.2m (in 2000 prices).

34 This suggests that such an increase in the enhanced R&D tax credit would be relatively expensive, but this would be to ignore the other likely benefits that have not been taken into account: i.e., increased R&D by plants in Northern Ireland, leading to greater innovation, absorptive capacity, and internationalisation, is likely to create a virtuous circle of further

positive impacts on R&D, and therefore a movement upward in the growth path of the region's economy.

35 Our results also suggest that to have a significant effect on productivity (and hence output), a substantial increase in the R&D tax credit is necessary. However, the major constraint that would be faced is the unsustainable increase in the long-run R&D stock that results from a generous R&D tax credit scheme. It is unlikely that very large increases in the stock could be met without significantly increasing the supply-side provision of R&D facilities (especially personnel) in Northern Ireland.

Survey of Firms in Northern Ireland

36 This chapter analyses the data from a survey of matched firms operating in Northern Ireland (approximately half undertaking R&D and half not), in order to provide more a detailed analysis of attitudes to undertaking R&D in the Province. In the survey we compare similar firms, rather than two sub-sets of companies that have different characteristics which explains why R&D was undertaken by one subgroup and not by the other. Overall, the sample of 247 manufacturing firms covered in the survey are predominately small (employing less than 250) and with their headquarters in Northern Ireland.

37 It is found that firms undertaking R&D are significantly more likely to:

- supply markets in Great Britain and the rest of the EU; and
- concentrate on product design (and to some extent marketing) – i.e. quality (or value-added) aspects of production.

Companies that did no R&D are much more likely to:

- sell only within the Province;
- look to lower costs (and improvements in their process technology) to provide a competitive edge.

38 In all, firms that undertake R&D have greater absorptive capacity based on a wide range of factors.

39 The sub-sample of surveyed firm not undertaking R&D are asked if they expect to engage in R&D at any time in the next 3 years: over 73% of small firms and 57% of larger enterprises have no R&D plans. In all the information provided suggests that the likelihood of R&D being undertaken is generally small.

40 When asked their reasons for not undertaking R&D, the single most important reason seems to be that it is a corporate decision not to invest in R&D in Northern Ireland. Smaller non-R&D orientated firms in Northern Ireland (who have similar characteristics to firms that do undertake R&D), choose not to invest in R&D because they make a product which depends upon competing in terms of cost (not quality), where the risk of undertaking R&D cannot be justified. They do not appear to be held back by supply-side factors (such as lack of skilled workers or opportunities to develop links with external organisations), and in general market failure reasons for not investing in R&D are present (viz. risk and uncertainty) but are not necessarily paramount.

41 For those larger firms not engaged in R&D, there does not seem to be the same attachment to producing a cost-driven product, such that R&D could not be justified. However, in addition to the importance of corporate policy not to invest in R&D, the risk attached to R&D holds back these larger companies (rather than supply-side factors).

42 In terms of what might encourage non-R&D firms to undertake such activities in Northern Ireland in the future, the survey shows that smaller firms would be relatively unresponsive to most changes in policy intended to induce them to spend on R&D. The latter is not a significant input into these firms' production processes.

43 For larger firms, a change in corporate policy and better financial performance might go some way to improving the uptake of R&D. But changing the 'culture' of firms' perceptions about R&D is not an easy process; it is unlikely that just offering more grant-aid *per se* would be a major stimulant.

44 Those firms surveyed that did invest in R&D are asked about the reasons for such expenditure. The most important reason is the development of new products, followed by the need to improve existing products, in order to increase their market share in existing markets, or to maintain market shares. R&D firms mainly compete on product quality while those that choose not to invest in R&D do so because they make a product which depends upon competing in terms of cost, where the risk of undertaking R&D cannot be justified.

45 With regard to the attitudes of firms who undertake R&D in Northern Ireland, R&D is a strategic priority, but it is risky, and more R&D would be undertaken if government shared this risk (through providing more financial incentives). In all, there are strong indications of certain elements of market failure in the area of R&D in Northern Ireland. However, market failure associated with supply-side factors (such as difficulties in recruiting/retaining staff; insufficient links with external bodies; lack of internal funds) is largely absent.

46 In terms of the extent to which firms undertaking R&D receive support from the public sector, only 24% of firms had taken-up R&D tax credits. Thus either the firms are unaware of their eligibility to receive the enhanced R&D tax credit, or they think it not worth applying for (e.g. too complicated).

47 When firms are asked what they consider to be the most effective incentives that the public sector could provide to encourage higher level of R&D activity, over 59% go for capital grants from Invest NI. Less than 3% of firms opt for R&D tax credits, even though most R&D expenditure undertaken by firms is on non-capital intramural activities (which are eligible for significant tax credits).

48 Lastly, firms who have claimed/received an R&D tax credit are asked if an increase in the tax credit would encourage them to spend more on R&D. Overall, the responses received suggest that (larger) firms are not fully convinced of the benefits to them of the enhanced R&D tax credit scheme.

Policy Options

49 Based on our analysis of the impact of R&D on total factor productivity, and thus output, and the responsiveness of the demand for R&D to its 'price', enhancing the tax credit (and thus

lowering the 'price' of R&D) should significantly increase firms' spending on private sector R&D and thus boost output, as well as having more general beneficial impacts on the regional economy. *Inter alia*, higher R&D spending is associated with firms pursuing a more quality-driven (rather than cost-reduction) strategy; it leads to greater innovation through product (and process) development, which allows firms to become more competitive in an increasingly global environment (including overcoming barriers to internationalisation); and firms achieve higher absorptive capacity (i.e. the ability to benefit from new technology developed both internally and externally). At a more aggregate (economy-wide) level, these benefits to firms create a virtuous circle of further positive impacts on R&D (i.e. the latter responds to higher innovativeness, competitiveness and internationalisation and indeed there is likely to be a significant, overall improvement in the regional innovation system), and therefore the region's growth path moves to a new higher trajectory.

50 However, it is important to note that the above benefits accrue slowly; we find that there is a significant time lag between changing the 'price' of R&D and a corresponding increase in the R&D stock at the plant level. Moreover, we assume that there would be no major supply-side constraints to a significant boost in demand for R&D (such as the supply of qualified personnel, or other inputs into the R&D process); in reality, increasing R&D capacity is likely to take time as facilities and human capital are put in place. This implies that the improvements that can be achieved through boosting the demand for R&D (through an enhanced tax credit) will be achieved in increments (this issue is returned to below).

51 An alternative strategy, which also has been shown to increase output levels in the economy, is to continue to provide selective financial assistance (primarily through capital grants). Harris *et. al*. (2002) considered the effectiveness of SFA during 1984-1997, concluding that it stabilised employment and without it manufacturing output would have been between 7 and 10 per cent lower. However, it was expensive (costing around £1.1 billion). Spending on SFA is intended to increase the supply-side capacity of the economy, and at the same time have beneficial impacts on productivity and competitiveness. Harris *et. al.,* (*op. cit.*) listed the benefits of SFA as:

- Transparent objective and instrument(s): firms understand how capital grants work and therefore factor them into investment decisions which presumably therefore reduces deadweight loss.
- Designed to boost investment directly and are linked to job promotions which in theory should enhance net, capacity-creating investment (as opposed to
- pure replacement and thus capital-deepening investment[3]). Such investment should, inter alia, result in:
- New product lines and therefore reduce industrial specialisation and reliance on older product cycle technology;
- Replacement of obsolete technologies and thus increase cost efficiency
- Reduction in start-up or relocation costs of investing in a peripheral region like Northern Ireland. It is likely that FDI would be adversely affected if SFA involving capital grants were withdrawn.

3 *Automatic capital grants were phased out in 1987 because they had this impact.*

52 However, there are certain drawbacks of SFA:

- Public subsidies can create a culture of dependence, and thus deadweight loss (and displacement if subsidies go to firms that trade almost exclusively in Northern Ireland). Thus, this can perpetuate the industrial structure as it is and lock firms into current technological practices and encourage capital-deepening rather than widening;
- The public sector also has little leverage over firms through offering just grants in the way the current system operates;
- Capital grants do not necessarily induce firms to invest in new products, or reduce costs (i.e. increase efficiency). That is, they do not necessarily encourage innovation in new products and processes. In fact they can encourage the use of cost-reducing old technology.
- SFA is costly; it is likely that grants need to be fairly substantial to be effective, since they do not encourage a change in the fundamental capabilities of firms (i.e. encourage them to develop the kind of dynamic capabilities based on continual R&D, knowledge and skill acquisitions, that lead to self-reliant growth).

53 In comparison to a policy of enhancing R&D tax credits, we conclude that SFA is both less cost effective and, more importantly, does not necessarily lead to the production of higher value-added goods and services (with the wider economic benefits attached to this type of production).[4]

54 Accepting that there is a case for policies designed to increase the level of spending on R&D in Northern Ireland firms, an obvious question is whether this should be pursued through fiscal incentives (specifically the enhanced R&D tax credit) or whether through direct grant aid to firms (such as through schemes like SFA R&D grants, SMART, Compete and START[5]). Our review of the literature on this issue (see par. 2.59ff.) suggests that fiscal incentives are likely to have the greater impact, although it is important to note that Harris *et. al*. (2002) found that the schemes in operation in 2002 in Northern Ireland had received favourable evaluation reports (i.e. the schemes had had a substantial impact on the level of R&D and that deadweight issues were not of primary concern). Moreover, our own analysis in Chapter 4 finds that public sector (financial) support has a significant positive impact in terms of both lowering the barriers to undertaking R&D, and R&D intensity for those firms where R&D > 0 (see, for example, par. 4.29 and 4.45). However, there are issues concerning such schemes: firstly, there is an unknown element of self-selection (firms that plan to spend on R&D seek and obtain grant-aid) that possibly results in an upward bias when estimating the relationship between R&D activities and receiving public sector support. Secondly, much of the traditional support has been reactive rather than strategic with no explicit orientation or concentration of support in 'growth' rather than 'declining' sectors. While R&D tax credits also do not necessarily discriminate between sectors, they are 'universal' (in that all eligible companies can apply) and therefore they ultimately do support those sectors where R&D is most important and presumably will have the largest impact. The 'universal' nature of tax credits also mitigates against any self-selection issue since all firms can obtain assistance. Thus if the policy is to increase the overall level of R&D in the economy, fiscal incentives seem on balance to be a better option than direct grant aid to firms.

4 However, see below when we discuss the case for a system of SFA capital grants that is linked to the innovativeness of the project being put forward for assistance.

5 See Chapter 9 of Harris et. al. (2002) for a discussion of the latter 3 schemes.

55 So is there a case for a higher rate of R&D tax credit in Northern Ireland? Or is there more of a case for widening the 'R&D base' in the Province, through increasing the number of firms that undertake R&D and increasing spending levels per unit of sales? Clearly, there would appear to be a strong case for providing firms with more information on the benefits of the R&D tax credit scheme, and how it works, as well as helping firms with advice on how to make claims – at this point in time, there appears to be a general lack of information on the existence of the scheme as well as a perception that it is too complicated. However, the analysis we present in this report (and summarized above) would suggest that there are more fundamental reasons as to why firms do not invest in R&D, other than the expense of undertaking R&D as reflected in its 'user cost' (or price).

56 Thus, at the more macro-economy level, there would appear to be a strong case for operating an inward investment strategy that continues to attract (larger) companies/plants which are more likely to have the capabilities to undertake R&D (through their exploitation of economies of scale and scope, and their international links and orientation), since this will also diversify the industrial base with more resources being devoted to higher R&D/value-added sectors. But this does require a sustained commitment to targeting these types of companies (rather than offering SFA more generally), and to also limiting the amount of SFA offered to encourage FDI to locate in Northern Ireland with genuine R&D capabilities. Thus, following on Harris *et. al*. (2002, par. 1.65), we argue that in order to maximise the benefits of SFA capital grants requires a system whereby capital grants to boost net investment (and reduce location costs) are linked to the extent of innovation implicit in any project. That is, the rate of SFA support for capital projects should be dependent on how much innovation-related activities will take place; if it is little, then capital grants should be capped at say 15%. However, if investment in fixed assets will also involve substantial investment in knowledge capital (through R&D, skills upgrading, management and marketing improvements), then the rate of capital grant might increase up to 50% of all eligible costs. This will go some way to ensuring that SFA is more product-orientated without the drawbacks discussed above. Such an approach needs to be adopted with respect to both FDI and indigenous firms operating in the Province.

57 At the firm (or micro-economy) level, we need to recognise that the fundamental problem for firms in Northern Ireland is not a resource-gap but a capabilities-gap. Hence, we identify the need to increase the level of internationalisation of firms, increase absorptive capacity, and to ensure that firms that undertake R&D spend a significant amount on in-house R&D rather than 'buying-in' R&D. That is, the lack of a 'culture' of undertaking R&D (and the over-emphasis on producing goods and services that compete more on costs than quality) has to be tackled. Stating the obvious, this is by no means an easy task.

58 Our analysis clearly shows that most local firms are currently not innovative by their very nature and the literature on dynamic capabilities (see par. 2.18ff) states quite clearly that competencies and capabilities cannot be bought, they can only be built by the firm. This in part comes from the key role that learning plays both in enabling the firm to align its resources, competencies and capabilities and in allowing the firm to internalise outside information into knowledge (and thus gain absorptive capacity); and the way the firm learns is not acquired but it is determined by its unique 'routines', culture and its current position (stock of knowledge). Thus, capabilities cannot easily be acquired, replicated, diffused, or copied – they therefore

cannot *easily* be transferred or built-up outside the firm through policy initiates. However, it helps if policy is not only aware of the need to increase absorptive capacity in firms (and thus their dynamic capabilities), but that policy instruments are consistent with the need to enhance absorptive capacity levels in the Province.

59 *Vis á vis* other more entrepreneurial and technologically advanced regions (such as SE England, Bavaria), Northern Ireland has a lot to catch-up. The necessary impact to fundamentally change (firm-based) capabilities has to be large and will take a long time to achieve. Moreover, the uncertainties - and time lags - involved in policies designed to develop innovation and enterprise capability suggest the value of a progressive shift towards a portfolio of policy instruments designed to develop enterprise and systemic innovation capabilities in Northern Ireland. An enhanced R&D tax credit is an important part of this portfolio, but on its own is unlikely to produce the desired results of changing the general lack of an R&D 'culture' in the Province.

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