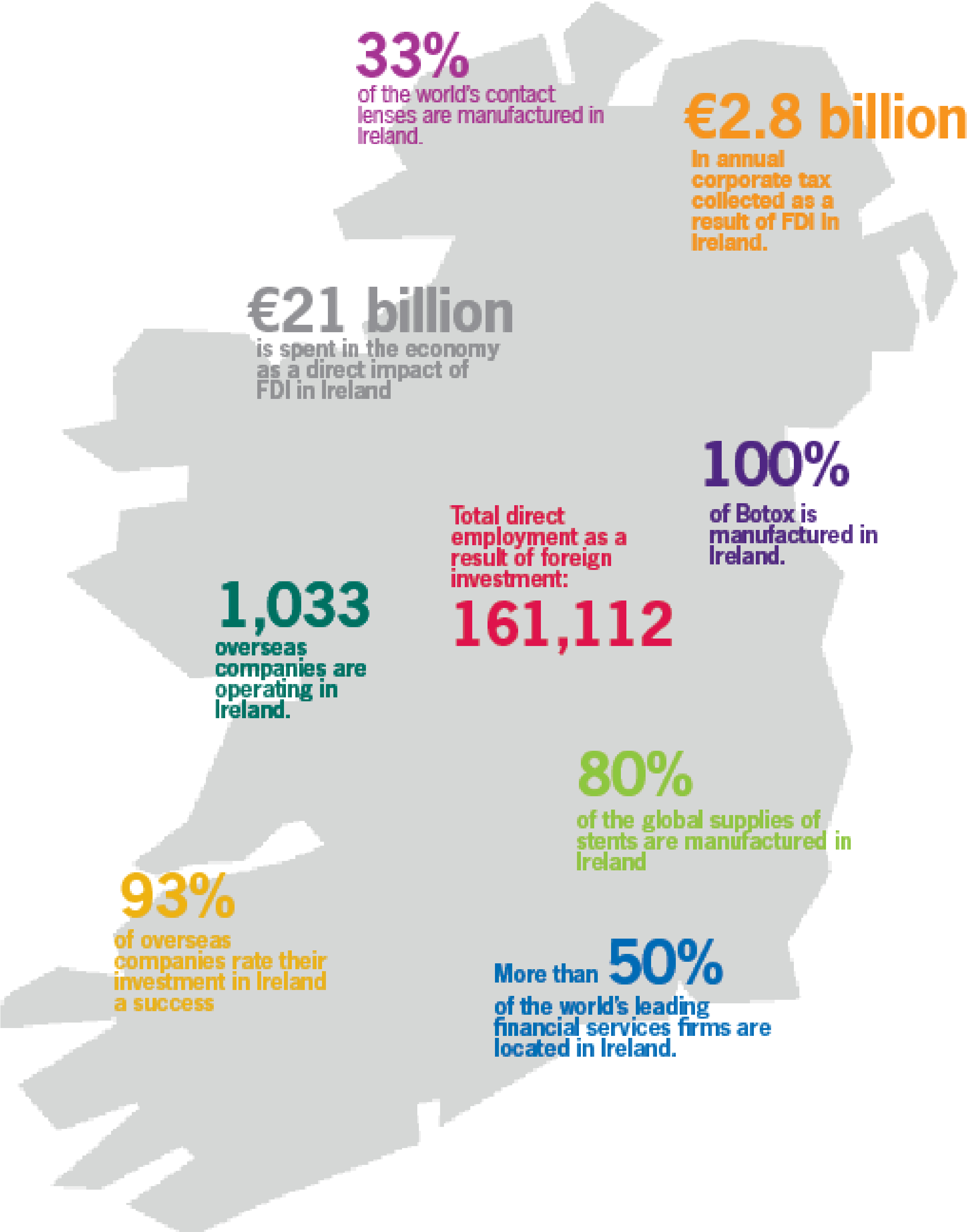
Grant Thornton
An instinct for growth™

Foreign Direct Investment in Ireland:

Sustaining the success
July 2014

amárach research

Contents


33%
of the world's contact lenses are manufactured in Ireland.
€2.8 billion
In annual corporate tax collected as a result of FDI in Ireland.
€21 billion
is spent in the economy as a direct impact of FDI in Ireland
100%
of Botox is manufactured in Ireland.
Total direct employment as a result of foreign investment:
161,112
1,033
overseas companies are operating in Ireland.
80%
of the global supplies of stents are manufactured in Ireland
93%
of overseas companies rate their investment in Ireland a success
More than 50%
of the world's leading financial services firms are located in Ireland.

Overview and conclusion

Ireland continues to outperform its competitors in attracting Foreign Direct Investment (FDI). As the global economy continues to show signs of recovery it is timely to reflect on Ireland's success to date and look at measures being taken and those required to ensure this success is sustained into the future.

The **aims of the report**, which was compiled jointly by Grant Thornton and Amárach Research are to:

- explore investment decisions and factors attracting FDI into Ireland;
- analyse the factors influencing the strength and successful positioning of Ireland to date; and
- highlight measures being taken and those required to ensure Ireland's continued success.

Between April and early June 2014, senior level executives and key decision makers in Ireland and North America were interviewed. The findings from these interviews are discussed in detail throughout the attached report.

This report indicates that factors which continue to positively contribute to **Ireland's reputation as a place to do business** include:

- the quality of the workforce with particular reference to its flexibility, adaptability, strong work ethic and high levels of educational attainment;
- the consistent pro-business environment maintained by successive governments, and supports available from government departments and agencies; and
- Ireland's continued economic recovery and the resilience displayed by the Irish Government and Irish people in relation to same.

The executives and key decision makers interviewed identified the following factors as contributing to their **investment decision**:

- political stability;
- ease of doing business;
- access to EU markets;
- access to a pool of skilled labour;
- fiscal stability;
- intellectual property (IP) protections;
- tax incentives for investors;
- regulatory incentives for investors; and
- ease of attracting international staff.

Ireland scores highest in terms of its political stability, the perceived ease of doing business and the access offered by Ireland to both a skilled labour force and EU markets.

Our 12.5% corporate tax rate continues to be a fundamental pillar in Ireland's FDI offering, but the predictability of the rate is as important as the rate itself.

The Amárach Research findings indicate that for Ireland to continue its success in the attraction of FDI, measures must continue to be progressed in respect of the following:

- **IP protections**: Ireland has a strong IP regime, however the lack of enforcement and harmonisation of international IP legislation, such as the proposed changes relating to standardised packaging, create issues for Ireland as a destination for FDI. It is important that any significant changes to the Irish IP regime are thoroughly reviewed from both a national and a wider international perspective to ensure no adverse effects on the attractiveness of Ireland as a location for FDI.
- **people and talent**: Known skill gaps exist in respect of positions in the Science, Engineering and Technology sectors. Measures have been taken to bridge these skill shortages and there has been much positive feedback from those surveyed in relation to the government's responsiveness to this issue. Ireland's high personal tax rates are also impacting on the ability of organisations to attract skilled senior resources from overseas into Ireland.
- **costs of doing business**: The overall cost competitiveness of Ireland has improved, however Ireland continues to be an expensive place to do business particularly when compared to other EU destinations. The cost of labour, transportation, utilities and property costs remain high. It is important that the momentum of increasing cost competitiveness displayed in the downturn is sustained as the economy recovers.
- **infrastructure**: Actions continue to be progressed, ensuring urban and regional Ireland are attractive destinations for FDI. Intrinsic components to this include the furthering of communication infrastructure and the increasing availability of broadband.

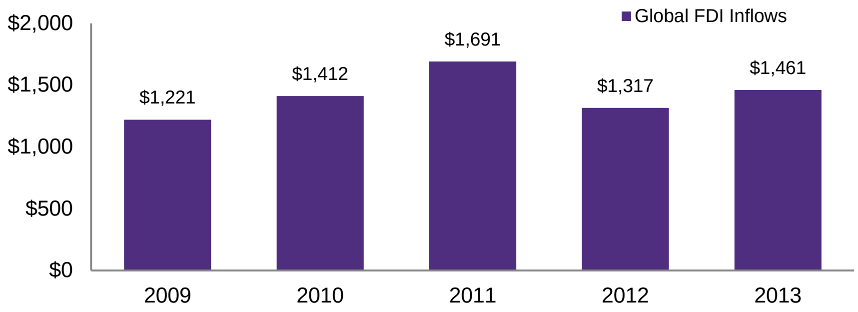
The significant corrective actions already taken and those now being progressed indicate the country is taking the right steps in positioning itself to attract increasing flows of FDI. These actions reflect the Irish Government's sustained commitment to attracting FDI. As a result Ireland will be well-positioned to sustain its success in attracting FDI into the future.

Global FDI landscape

Overview

The importance of FDI in the global financial landscape continues to grow at pace. In 2013, total global FDI inflows rose to an estimated US$1.46 trillion, up 11% from US$1.32 trillion in 2012, as outlined in figure 1 below. Increases were experienced in all major economic groupings; developed, developing and transitional economies.

Figure 1: Global FDI inflows (Billions of USD)



Source: UNCTAD

FDI flows to **developed economies** remain at historically low levels (39%) despite a slight increase to US$576 billion.

Developing economies account for over half of global FDI (52%) as inflows reached an estimated US$759 billion.

FDI flows to **transition economies** recorded a new high (9%) of US$126 billion. The BRIC countries (Brazil, Russia, India, China and South Africa) account for 22% of global FDI flows, this figure is twice that of their pre-crisis flow level and reflects the significant FDI flow opportunities that exist for such economies into the future.

It is estimated that FDI flows will continue to rise further in 2014 and 2015 to US$1.6 trillion and US$1.8 trillion, respectively, as global economic recovery gains momentum. The OECD expects FDI flows to improve further in 2014 and 2015, largely on account of a continued recovery in developed economies.

Global FDI flows remain 30% below their 2007 peak and the prospect for an FDI recovery may be impacted by a number of factors.

Developing economies account for over half of global FDI (52%) as inflows reached an estimatedUS$759 billion.

Uneven levels of growth, fragility and unpredictability in a number of economies, and the risks associated with a gradual exit from the quantitative easing programmes by the United States and other major economies may dampen the recovery. Other factors which may impede growth include a persistent Eurozone sluggishness, slowing growth in China and volatility in emerging markets.

FDI in Ireland

"Foreign Direct Investment (FDI) has been, and will continue to be, an integral part of Ireland's economic development strategy. Foreign owned firms have a strong impact on the Irish economy by contributing substantially to Ireland's exports, jobs, expenditure in the Irish economy and to Exchequer funds".

Richard Bruton, Minister, Department of Jobs, Enterprise and Innovation, March 2014.

Despite the on-going economic challenges, Ireland is gaining increased international recognition for progress made in addressing its economic challenges and in stimulating an export led recovery.

Historically foreign firms have contributed significantly to Ireland's economic growth and development. The US is the single largest source of FDI in Ireland. 531 US companies employ over 100,000 people directly in Ireland or over 70% of total inward investment employment

FDI is important to the Irish economy in terms of employment, employment growth, industrial output, productivity growth and for the expansion and diversification of Irish exports.

FDI continues to play an important role in the recovery process of the Irish economy. Attracting FDI remains a priority for the Irish government as it continues to seek opportunities to move the Irish economy forward.

The key factors that have been attracting foreign investors to Ireland include:

- **people** – highly skilled workers, youngest workforce in Europe.
- **business environment** – English speaking and members of EU/Eurozone.
- **tax** – 12.5% corporate tax rate and extensive double tax treaties.
- **IP and R&D benefits** – attractive IP and holding company regimes, R&D tax credit plus grants.
- **costs** – increased cost competitiveness, low inflation rate.
- **location** – access to EU and world markets.

Impact of FDI in Ireland
There are 1,033 overseas companies operating in Ireland.
Total spend in the economy: €24 billion.
Total employment: 161,112.
Total indirect employment: 274,000.
Net increase in employment: 7,071.
Spend on payroll: €8 billion.
Total exports: €122 billion.
Annual corporate tax: €2.8 billion.

How Ireland compares
1st Top destination country for FDI.
1st Best country for doing business.
1st Investment incentives.
1st Business legislation.
1st Flexibility and adaptability of workforce.
2nd Quality of education.
2nd Unit labour costs in manufacturing sector.
3rd Skilled labour is readily available.
9th Ease of starting a business.

Source: IDA Ireland

The executives and key decision makers interviewed scored Ireland as follows;

Factor	Av Score/1-5 (1 – very poor, 5 – most attractive)
Political stability	4.71
Ease of doing business	4.43
Access to EU market	4.29
Access to a pool of skilled labour	4.29
Fiscal certainty	4.14
Intellectual Property Protections	4
Tax incentives for investors	3.93
Cost of doing business	3.71
Regulatory incentives for investors	3.6
Ease of attracting international staff	3

In the following sections we review these factors and highlight how they will impact on Ireland's ability to sustain the success it has achieved in attracting FDI.

1. People and talent

Introduction

Few FDI competitor nations offer the depth and agility of 'people and talent' available in Ireland. This core differentiator significantly contributes to Ireland's attractiveness as a place to invest and do business. Ireland's world class education system, coupled with its favourable demographic profile and English speaking population, as well as the perceived flexibility of the Irish workforce, all play their part in making the country an attractive destination for FDI.

Despite the country's continued success in attracting inward investment a number of 'people and talent' related issues exist. This primarily relates to an emerging talent or skills gap which will need to be addressed if Ireland's 'people and talent' is to retain a source of competitive advantage in securing FDI.

The table below outlines the results from the Amárach Research survey based on "people and talent".

Do you agree or disagree with the following	On a scale of 1 to 5, where 1 is strongly disagree and 5 is strongly agree
Ireland is open to skills from elsewhere in the EU	4.45
By forging closer relations with between companies and institutions, Ireland's workforce can better meet industry's needs	4.4
Customised education is needed to meet industry's precise skills needs	4.3
Ireland has a larger proportion of young people with higher education than most other EU countries	4.27
Access to a local pool of skilled talent	4.1
Ease of attracting key mobile staff	4
Ireland has a deficit of science, engineering and ICT graduates to meet the needs of potential employers	3.9

Education system

Ireland's education system is consistently ranked amongst the best in the world. Both OECD "Education at a glance" and the 2013 IMD "World Competitiveness Yearbook" ranked Ireland in the Top 10 best educated nations in the world.

The development of a strong skills base has been a key driver of economic growth in Ireland and has played a pivotal role in helping the country attract significant knowledge based FDI. The removal of tuition fees for third level education in 1995 resulted in the number of individuals who hold third level qualifications growing rapidly. The IDA indicate that 60% of students go on to higher education and that Ireland is ranked 1st in Europe for the completion of higher education.

Ireland's world class education system has produced a skilled labour force. This availability of highly educated and qualified employees makes Ireland an ever attractive destination for inward investment.

Demographics

Ireland has a unique demographic profile 33% of the population are under the age of 25, while 50.4% of the country's population is under the age of 35. This is a statistic which compares favourably to FDI competitors including Germany (36.5%), Spain (40.9%), Netherlands (41.8%), France (43.2%), and the UK at 43.8%.

This young well educated, English speaking workforce all adds to Ireland's appeal. In fact Ireland is the only English speaking country in the Euro Zone. This is an important factor in particular when attracting FDI from US based multinationals.

Workforce flexibility

Ireland's FDI landscape is greatly enhanced by the flexibility and adaptability of the country's workforce. Ireland was placed first for the flexibility and adaptability of its workforce in the IMD World competitiveness yearbook 2013.

A report for the Economist Intelligence Unit quotes John Herlihy, Head of Google in Ireland, *"There is a degree of flexibility both innate and regulatory, about Ireland's, workforce that is unique in Europe. Perhaps because of Ireland's history, the spirit is to resolve differences when they are found, and then move on"*

Labour migration and work permits

Ireland has favourable labour migration and work permit practices which add to the ease of Ireland as a place to invest and do business in. The taxation section of this report outlines details of a Special Assignee Relief Programme (SARP) to reduce the cost to employers of assigning skilled individuals from abroad to take up positions in the Irish based operations of their employer. In general European Economic Area (EEA) and Swiss nationals are allowed to work in any European Union country without requiring work permits. Non EEA nationals will require different types of permission depending on their individual circumstances.

This combination of skilled labour, unique demographics and leading workforce flexibility make Ireland a powerful force in attracting FDI and considerably add to the nation's attractiveness as a destination for inward investment.

Sustaining the success

Despite Ireland's obvious advantages there are a number of people and talent considerations which if not dealt with may detract from the country's ability to compete for further FDI.

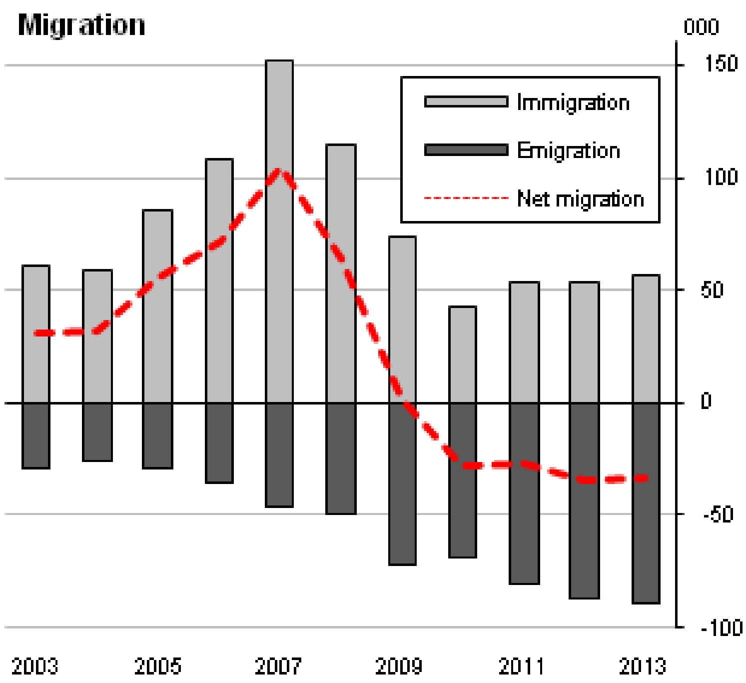
Skills gap

In Ireland, there is an emerging disconnect between skills available and those in demand. Unemployment in June 2014 was 11.6%, its lowest level in almost five years. However, as indicated in the National Skills Bulletin 2013 consistently high unemployment rates persist for certain segments of the labour market (e.g. people previously employed in construction and those with lower levels of educational attainment).

At the other end of the spectrum companies in the knowledge based sectors of ICT, Science, Engineering and Healthcare are experiencing increasing difficulties in recruiting suitably skilled resources to meet their specific needs. The occupations for which this gap in skills is most pronounced include:

1 software developers;
2 IT business analysts;
3 technologists;
4 network experts;
5 process engineers;
6 chemical and biological scientists;
7 product development and design engineers;
8 foreign language skills; and
9 electrical and mechanical engineers.

Ireland has recently experienced high levels of emigration and this is likely to have further exacerbated the emergence of a skills gap. High levels of emigration have been a feature of the recent economic crisis. In 2013, total emigration was 89,000 compared to 87,100 the previous year. Over 75% of those who emigrated between 2010 and 2013 were aged between 15 and 44.



A genuine concern exists amongst employers that the skills gap will impact their ability to grow business. However, according to the Amárach Research survey, undertaken for this report, even though Ireland is experiencing lack of skills in certain sector specific areas, organisations are open to obtaining these skills elsewhere within in the EU.

The taxation section of this report outlines the challenges organisations face when trying to attract talent to Ireland as a result of the country's high personal tax rates. The skills gap compounded by this additional challenge in attracting the senior and specialist resources for which vacancies exist may erode Ireland's 'people and talent' advantage when it comes to securing FDI.

It is important that Ireland takes the measures necessary to align output from its education system with future employment potential. The Irish government agency, Forfás indicates that there has been an increase in applications to Science and IT related third level courses through the CAO system and a similar move away from Construction and Property related qualifications which is a positive development.

Recent initiatives including the provision of bonus points for those taking honours leaving certificate mathematics indicate that government is aware of the issue of the skills gap and taking appropriate corrective measures.

Conclusions

Ireland's 'people and talent' is a key differentiator when it comes to organisations making the decision to invest here. The country's world renowned education system and the availability of a skilled and educated work force with a perceived 'can do' attitude are all factors which combine to endear Ireland to potential investors.

The emergence of a skills gap has been commented upon for some time. Appropriate steps are being taken to ensure this gap does not become an issue when seeking to attract FDI to Ireland. The on-going success of these measures needs to be monitored to future proof the competitive advantage offered by Ireland's 'people and talent'.

2. Tax regime

"Our business model globally is built on tax advantages – it is the key to our future."

Irish country manager for a global brand.

Introduction

In recent times Ireland has maintained and committed to a low rate of corporate tax. This has significantly contributed to the country's success in attracting and retaining FDI. At 12.5% Ireland's corporate tax (CT) rate is one of the most competitive in the world.

The CT rate is one component of a broader taxation ecosystem which has been successful in attracting FDI to Ireland. The country's holding company regime, research and development tax credit and intellectual property relief amongst other factors combine to make Ireland a very popular choice for inward investment.

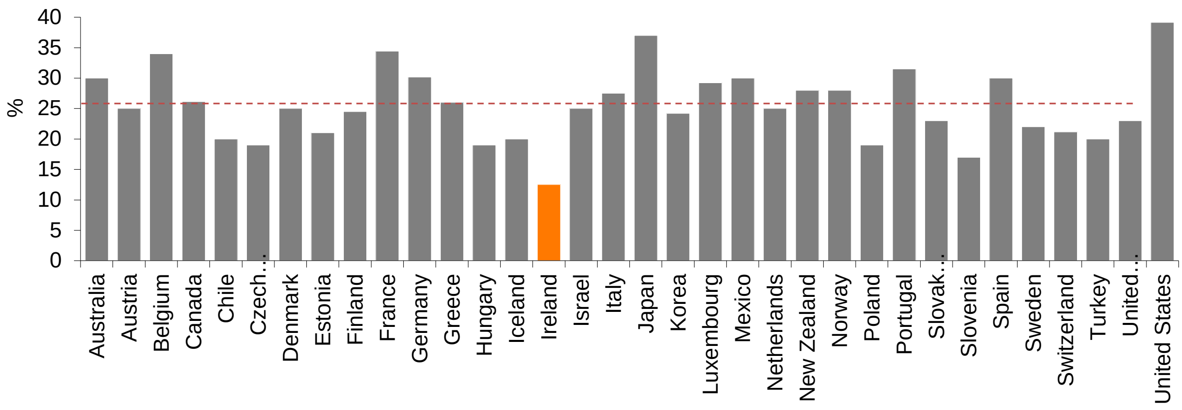
Recent developments at a global tax level have the potential to challenge the ongoing attractiveness of Ireland from a tax perspective. However these developments could also present opportunities for Ireland.

Ireland's corporate taxation regime and its wider taxation ecosystem greatly contribute to the country's sustained competitiveness in attracting FDI.

A consistently low Corporation Tax (CT) rate

The OECD average corporate tax rate is 25.5%. With a 12.5% corporate tax rate for companies engaged in trading activities, Ireland has one of the most favourable corporate tax regimes in the world.

Ireland's consistently low rate of corporation tax has been a central component in the country's ability to attract and retain FDI which in turn creates employment and generates economic activity.



Despite our low CT rate, the €4.2 billion it generated in 2012 also represents an important (11.5% of total tax revenue) income stream for the exchequer.

In the face of much international debate, Ireland has consistently and robustly defended its corporate tax rate. This rigorous defence has been a source of confidence for companies considering Ireland as a location for FDI. Our right to maintain this rate, notwithstanding the requirement to introduce stringent measures elsewhere, has been acknowledged by various senior figures in Europe. In our view, this certainty is critically important in securing our future as a leading destination for FDI in Europe. Interestingly, the current global trend of falling corporate tax rates means the focus on Ireland's headline tax rate is likely to decline.

When asked how important Ireland's corporate tax rate was to the sustained attraction of FDI survey respondents indicated an average score of 4.63, where 1 was not important and 5 was very important. Notably these same respondents indicated an average score of 4.85 when asked how important the predictability of the tax rate is in the attraction of FDI.

Holding Company Regime

Recent years have seen the introduction of significant enhancements to the Irish holding company regime. The outcome of these enhancements is that Ireland can now offer a tax package that compares well with other potential holding company regimes and which contributes to the country's attractiveness as a location for FDI.

Subject to certain conditions, this package comprises of:

1. a tax exemption on capital gains from the disposals of qualifying shareholdings;
2. a pooling and carry forward of excess foreign tax credits;
3. the abolition of capital duty on equity investments;
4. double taxation relief for foreign branch profits;
5. extensive treaty network which minimises any withholding tax leakage;
6. no restrictions in terms of thin capitalisation or debt capitalisation;
7. no controlled foreign corporation rules;
8. limited transfer pricing rules which only apply to agreements entered into in the course of the company's trade;
9. an effective tax exemption on foreign dividends with foreign tax credits available to shelter any Irish tax (further augmented by recent legislation allowing for tax credits equal to headline tax rates in respect of dividends paid by certain locations);
10. A Special Assignee Relief Programme (SARP) to reduce the cost to employers of assigning skilled individuals from abroad to take up positions in the Irish based operations of their employer. This provides an exemption from Irish income tax on 30% of salary between €75,000 and €500,000 for employees that are assigned to Ireland for a minimum of one year and a maximum of five years (subject to satisfying certain conditions); and
11. share benefits for qualifying employee share schemes.

A large network of double taxation treaty agreements

Ireland has a broad network of double taxation treaty agreements. These agreements have been of critical importance in attracting FDI to Ireland. These treaty agreements have assisted in maximising cash flow efficiency for corporate structures in terms of business profits, dividends, interest and royalties. In addition, these double taxation agreements foster a favourable environment for the movement of employees between regions. Companies with employees coming to Ireland on assignment from one of these countries can, under certain circumstances, remain exempt from the obligation to operate a withholding tax.

The countries with which agreements exist are as follows:

Albania	Finland	Malaysia	Singapore
Armenia	France	Malta	Slovakia
Australia	Georgia	Mexico	Slovenia
Austria	Germany	Moldova	South Africa
Bahrain	Greece	Montenegro	Spain
Belarus	Hong Kong	Morocco	Sweden
Belgium	Hungary	Netherlands	Switzerland
Bosnia and Herzegovina	Iceland	New Zealand	Thailand
Bulgaria	India	Norway	Turkey
Canada	Israel	Pakistan	United Arab Emirates
Chile	Italy	Panama	Ukraine
China	Japan	Poland	United Kingdom
Croatia	Korea	Portugal	United States
Cyprus	Kuwait	Qatar	Uzbekistan
Czech Republic	Latvia	Romania	Vietnam
Denmark	Lithuania	Russia	Zambia
Egypt	Luxemburg	Saudi Arabia	
Estonia	Macedonia	Serbia	

Research and Development tax credit

Ireland's tax system incentivises foreign and indigenous companies to undertake new or additional Research and Development (R&D). The R&D tax credit represents a significant investment by the Irish government in the creation of a taxation ecosystem that champions the attraction of FDI.

The R&D tax credit is a very significant tax break given that it represents a potential 25% refund of costs incurred regardless of whether any corporation tax has been paid.

Key features of the R&D credit are as follows:

1. offset against corporation tax in the first instance available as a cash refund (subject to a limit of the remitted payroll taxes);
2. €25 credit/cash for every incremental €100 spent on R&D above the 2003 "base year" and net of R&D grants;
3. volume-based regime for the first €300,000 of qualifying expenditure – 25% credit for every euro incurred;
4. available in addition to the trading deductions available for R&D spend (37.5% relief); and
5. key employee reward mechanism – R&D staff effectively receive part of remuneration tax free (certain criteria apply.

Intellectual property tax regime

Ireland's tax policy further incentivises FDI investment by offering a competitive and transparent intellectual property tax regime.

Where a company is considered to be engaged in trading activities and earns income from qualifying IP that income will qualify for the low corporate tax rate of 12.5%. In addition the company can claim a tax deduction for the capital cost of the IP in line with amortisation or over 15 years.

This policy allows companies to reduce their effective tax rate below the headline rate of 12.5% and offers a competitive IP regime by international standards. The qualifying IP from an Irish perspective is also quite broad in definition making the regime widely accessible and transparent.

Financial services

With over 50% of the world's financial services firms having a presence in Ireland, the financial services industry represents a huge success for the Irish economy. Indeed, Ireland is the largest hedge fund administration centre in the world, servicing alternative investment assets representing over 40% of global and 60% of European hedge fund assets. Ireland is also the leading location worldwide in the aircraft leasing space, with over 90% of the global aircraft leasing activities operating through Ireland.

Tax policy has played a key role in this success. Irish investment funds are exempt from Irish tax on their income and gains, irrespective of where their investors are resident. In addition, special purpose vehicles can be used by investors to facilitate tax neutral investments (a common structure used in the aircraft leasing space). Finally, financial services companies who are actively engaged in trading activities in Ireland can access the low corporate tax rate, similar to normal trading companies.

Additional advantages

In addition to a low corporate tax rate Ireland offers a range of other tax incentives which have positively impacted on the country's ability to attract FDI. These include:

1. an attractive holding company regime;
2. generous R&D and IP tax deductions;
3. Capital Gains Tax (CGT) exemption on share disposal;
4. effective exemption from Irish tax on foreign dividends;
5. generous domestic law withholding tax exemptions;
6. preferential tax regimes in place for regulated collective investment funds and securitised vehicles;
7. no thin capitalisation or Controlled Foreign Corporation (CFC) rules;
8. limited transfer pricing conditions and no imputation.

These provisions and tax policies continue to place Ireland in a very competitive position for attracting FDI.

BEPS

The increasing appetite for change and a movement towards more harmonised taxation laws is reflected in a number of EU and OECD initiatives. In 2013, the OECD released a report "Addressing Base Erosion and Profit Shifting (BEPS)" The BEPS project specifically examines the low effective tax rates paid by multinational companies as a result of trans-national structures which lead to base erosion and profit shifting. A 15 point action plan has been published and this has been endorsed by the G20.

Ireland is actively engaged with the OECD in helping to realise the action plan. Diverse views exist as to the impact the BEPS project will have for Ireland. Some commentators have suggested that the BEPS action plan is unlikely to result in any fundamental change to Ireland's current tax regime.

> "It all depends on what comes out as a tax harmonisation proposal – it is a fundamental technical issue."
>
> **Representative organisation**

Ireland plays fair; it only engages in fair tax competition and is compliant with all international rules. Ireland's tax regime is transparent and as such should meet the BEPS requirements. Indeed it has been speculated that the BEPS project will reduce harmful tax competition and as such Ireland will become an even more attractive location for FDI as a tax location that places importance on substance, trading activity, jobs, etc.

The exact repercussions of the BEPS project for Ireland remain unknown. Companies seeking locations for FDI need assurance and clarity on taxation matters. The BEPS project might be perceived as having a negative impact on Ireland's attractiveness as a location for FDI or may discourage multinationals making any decisions in relation to their global tax structures until certainty is reinstated in the global tax environment.

In the Amárach Research survey one US interviewee who acts as an advisor to US multinationals across the globe, and has lectured professionally on BEPS felt that Ireland was well positioned to exploit BEPS, given that Ireland *"has a compliant and transparent tax regime"*.

Reputation

Companies are increasingly factoring in considerations such as corporate social responsibility into their investment decisions. Growing pressure is being placed on companies to behave ethically and to move operations from tax havens.

Ireland's taxation reputation has been damaged by recent inaccurate commentary that labelled the country a 'tax haven'. Substantial efforts are now required to ensure Ireland regains its reputation and to protect against any impact this commentary might have had on the country's attractiveness as a destination for FDI.

In October 2013, the Irish government published 'Ireland's International Tax Strategy'. This document underlines the open and transparent nature of Ireland's taxation system. It is important that government continues to reiterate and build on this messaging so as to improve the reputation of Ireland's taxation system and to further educate all stakeholders as to the open and transparent nature of the Irish taxation system.

US developments

The US is the single largest source of FDI in Ireland. 531 US companies employ over 100,000 people directly in Ireland or over 70% of total inward investment employment. Following the global economic crisis, the US administration is coming under increasing pressure to consider a reform of its tax system.

The US administration is likely to enact measures which will seek to increase tax revenue from multi-national companies. In doing so, it is likely that limitations will be placed on profit shifting (the process of transferring intangible assets abroad to low tax affiliates). By increasing the rates of tax paid on the foreign income of US companies the US will indirectly erode Ireland's competitive position for attracting FDI.

The Irish government, ever aware of the substantial role played by US multinational companies in the Irish economy is closely monitoring any developments that might have repercussions in Ireland. While Ireland's ability to influence the outcome of any such developments is limited, it is worth considering that measures that make US groups less competitive against their overseas competitors are likely to meet strong resistance in the US.

Personal income tax rates

"The marginal rate of tax is 52% - we are losing competitiveness in income tax in Europe and the OECD."

Irish representative organisation

Ireland's current personal income tax rates are as follows:

1 income tax: 20% up to €32,800 and 41% there after

2 Universal Social Charge (USC):

  a 2% on income between: €0 - €10,036

  b 4% on income between €10,036 - €16,016

  c 7% on income equal to or in excess of €16,061

3 Social Security:

  a employee: 4% on total earnings

  b employer: 10.75% on total earnings

For high income earners Ireland has one of the highest marginal tax rates in the world. The top rate of tax on employees in Ireland is 52% compared to an OECD average of 46%. The level at which individuals enter into the higher tax bracket is also much lower in Ireland than in other OECD countries. However in a lot of cases, the effective tax rate is much lower than the headline rate of 52% because of the tax exemptions and credits available up to the €32,800 threshold.

Ireland's disproportionately high personal income tax rates act as a barrier when it comes to attracting senior executives to Irish based operations. If companies perceive they will encounter a difficulty in getting employees to relocate to Ireland as a result of the high marginal rate of tax then this directly impacts the country's attractiveness as a location for FDI.

Government must seek to improve the current income tax burden to ensure Ireland remains an attractive destination for employees of companies seeking to make investments here. It is vital that no upward changes be made to the marginal tax rate. When the economic climate allows government should seek to augment the rates at which higher income tax applies.

The survey undertaken by Amárach Research highlighted that opinion was divided by those interviewed as to the impact of personal tax rates that currently apply in Ireland. Those outside of Ireland were less concerned about the challenges posed by the tax regime and were more inclined to be aware of the opportunities presented for tax planning for expatriates on secondment from their organisations. For those inside of Ireland, their concerns were about the marginal rate in absolute terms and the rate at which it kicks in. It was felt that the rate of income tax would be felt more keenly by those moving from a US environment, rather than a European environment.

Conclusions

Ireland's corporate tax ecosystem continues to positively differentiate Ireland as a location for FDI. The low rate of corporate tax, research and development and intellectual property tax credits amongst other factors underpin the country's sustained commitment to securing FDI as a result of its corporate tax environment. The outcome of changes to the international taxation environment and their subsequent repercussions for Ireland remain unclear. This uncertainty in itself must be considered as detracting from Ireland's competitiveness. Ireland must continue to actively contribute to the international discourse in relation to taxation, proactively seek to maintain its reputation and adjust marginal rates of income tax to ensure the country remains an attractive destination for FDI. The open and transparent nature of Ireland's corporate tax system gives confidence that the country will continue to attract and retain FDI.

3. Infrastructure and support services

"The Government is committed to ensuring that the country's stock of infrastructure is capable of facilitating economic growth and that enterprise development agencies have ample resources to foster opportunities for enterprise development and job creation."

Department of Public Expenditure and Reform

Introduction

This section looks at Ireland's infrastructure and the role it plays in attracting and retaining FDI. Ireland has significant advantages over its direct FDI competitors in terms of its location, language and financial infrastructures. In contrast to these advantages, Ireland's competitive position continues to fall behind that of other EU and OECD countries in terms of transport, energy and broadband infrastructure. This presents a number of barriers to the attraction and retention of FDI, yet significant work is being undertaken to combat said barriers.

These improvements were acknowledged in the findings of the Amárach Research survey which indicates that Ireland is now reaping the rewards of investment in infrastructure over the past two decades. The road network, with the exception of access to the North West, is in excellent condition and facilitating development. The Amárach Research survey also highlighted that the availability of high speed broadband is still an on-going issue, particularly outside the main urban centres.

Ireland's Department of Jobs, Enterprise and Innovation supported by government agencies, the Industrial Development Agency (IDA) and Enterprise Ireland (EI) work together to enhance the creditability of Ireland as a location for FDI.

The Amárach Research survey acknowledges the role played by the IDA, in seeking out and winning FDI projects. The IDA wins universal plaudits across interviewees. The IDA is seen to be professional, and it has consistently managed to deliver for Ireland in the good times and the bad.

"The IDA and Enterprise Ireland offer very strong support whenever we contact them."

Irish country manager for a global international brand

"The IDA is excellent – a very experienced and well-oiled machine it serves Ireland's needs very well and is replicated by other countries elsewhere."

US Business Executive

Location

The main components in Ireland's success in targeting and attracting FDI are:

1 geographic location; and
2 membership of the EU.

Multinational companies who chose to invest in Ireland, gain access to potentially 500 million consumers and 28% of World GDP. According to the IMF (International Monetary Fund), the economy of Europe is the largest and most affluent economy in the world. Ireland's membership of the Eurozone reduces the costs and risks associated with currency exchange for those multinationals who chose Ireland as their European host country.

The Amárach Research survey also highlighted that clusters are an important factor when seeking a desired location. The rationale for this includes:

1. the availability of a skilled workforce who want to be in an urban environment regardless of global location,
2. transport access and particularly international air access is critical and Dublin as a city is perceived to punch above its weight in terms of European and US access; and
3. within Dublin the importance of linking the Luas (Dublin's light rail tram system) lines was highlighted as a means of linking the commercial and government core in the city centre with the docklands area, where the International Financial Services Centre (IFSC) and many ICT multinational companies are located.

Whilst clusters can and do exist outside urban environments the perceived ability to attract and retain talent at these locations detracts from their appeal. This presents a challenge to government in seeking to increase inward investment to regional areas.

Language

Ireland is the only Eurozone country where English is a principal language. This, in addition to other benefits, provides Ireland with a distinct advantage through access to a pool of highly-qualified English-speaking specialists and reduction of the costs associated with doing business in Ireland.

Financial infrastructure

> Ireland has succeeded in building an international financial services industry that is diverse in its activities and enjoys a world-leading reputation in several sectors such as aircraft leasing, insurance, banking and investment management.
>
> **IDA, What makes Ireland great?**

Access to financial infrastructure and availability of various financial instruments has a positive impact on investor's decisions to invest in Ireland.

Banking and financial infrastructure is well developed in Ireland, where half of the world's top banks and insurance companies have operations. The Irish financial institutions provide high quality service to international clients.

Ireland has a well-developed domestic financial services industry. In general, the banking sector is dominated by a number of domestic banks, particularly in the retail sector. However, a large number of foreign banks also have operations in Ireland concentrating principally, though not exclusively, on the corporate sector. These include large International Financial Services Centre (IFSC) banks such as Citibank Europe plc. Merrill Lynch International Bank, Depfa Bank plc. UniCredit Bank Ireland plc. and retail banks such as Ulster Bank Ireland Limited and KBC Bank Ireland. The Irish financial services sector is regulated by the Central Bank of Ireland.

In 2013, Ireland's financial institutions successfully adopted the Single Euro Payments Area (SEPA) requirements, which are aimed at simplifying electronic payments within the EU and improving the security of payment mechanisms.

This well-developed and constantly improving financial services environment has created favourable conditions for multinational companies to invest in Ireland.

Transportation and electricity

> "Competitive and efficient transport is vital both for domestic and export sectors and a well-functioning world class transport infrastructure remains a key factor in attracting foreign direct investment."
>
> **Leo Varadkar, Minister, Department of Transport, Tourism and Sport, 23 January 2014**

It would appear that Ireland is disadvantaged when compared to other European countries due to its underdeveloped transport, electricity and broadband infrastructure. Ireland's lack of competitiveness in this area is being addressed and such measures are critical in maintaining the country's ability to attract and retain FDI.

According to the World Economic Forums (WEF), Global Competitiveness Report 2014, Ireland appears to have an underdeveloped transport and electricity infrastructure. When compared to its main FDI competitors, such as the UK, France and Spain, Ireland is ranked below in almost all infrastructure categories included in the index.

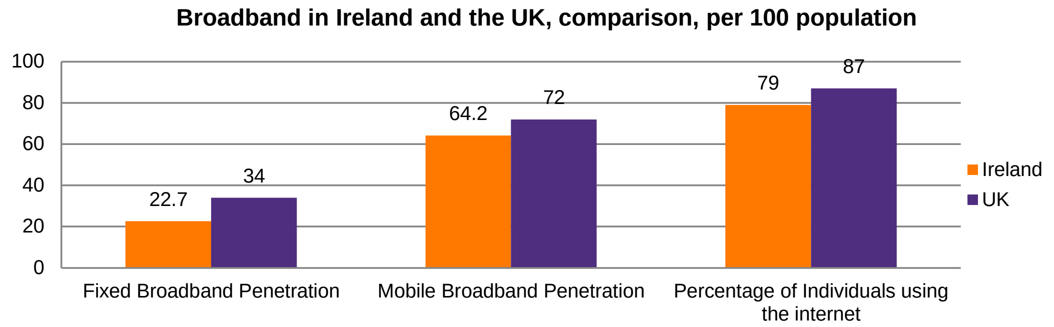
Transport and electricity infrastructure has been traditionally selected by the WEF survey participants as one of the most problematic areas when investing in Ireland. It is vital that the Irish Government fulfils its commitment to develop a sustainable transport and electricity infrastructure to ensure that Ireland remains a competitive destination for FDI.

Broadband

As the global economy continues to develop, the importance of the internet grows exponentially. Broadband access is one of key pillars of the 'Europe 2020 strategy' and this document sets the lofty ambition to provide widespread broadband access across Europe[1].

Ireland continues to have a less developed broadband structure when compared to some of its EU neighbours. When compared to the UK, Ireland has lower levels of fixed and mobile broadband penetration and the percentage of individuals using the internet remains below that of our nearest neighbour.

Figure 3.2 – Broadband in Ireland and the UK comparison, per 100 population

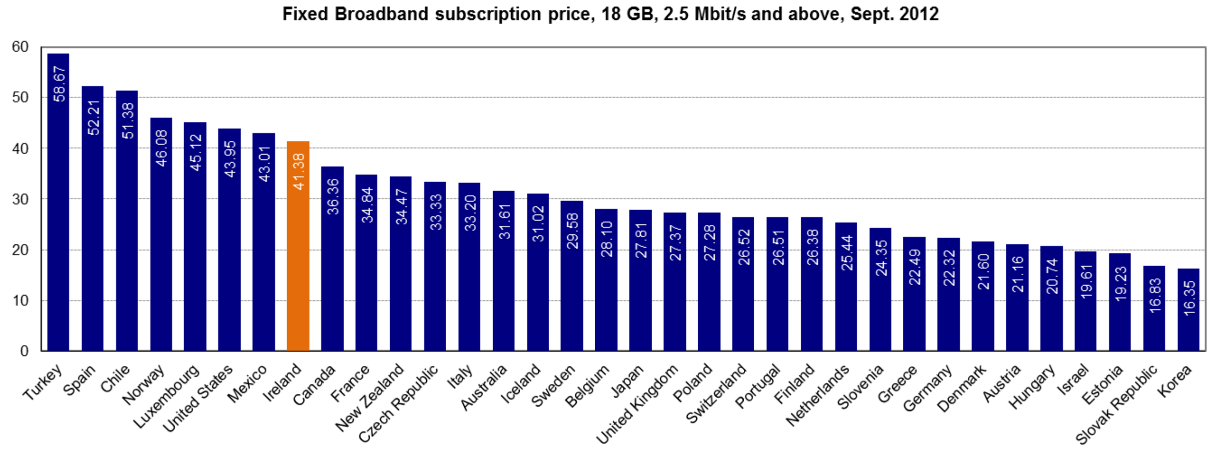


Source: The state of broadband 2013: Universalising broadband

In addition to internet penetration and usage, the cost of internet connection in Ireland remains well above the EU average (see below).

[1] Pillar IV: Fast and ultra-fast Internet access

Figure 3.3 - Fixed broadband subscription price



Source: OECD

This has an impact on the price competitiveness of Ireland as an FDI destination when compared to other EU countries.

Commercial property

The availability of office space and/or development land is also taken into account by companies when selecting a location for their organisations. The commercial property market in Ireland is undergoing significant changes as demand picks up after the economic downturn.

A lack of office development across all markets over the last number of years, together with a flight to quality amongst active occupiers, has cumulated in a significant shortage of Grade A space; and in particular larger floor-plates. This in turn has resulted in upward pressure on prime rents, especially in the Dublin area. It looks likely that this trend is set to continue in 2014. This can be seen to a lesser extent across the country, where availability levels remain high, in location such as Cork, Limerick and Galway.

Supply, however, is set to increase as a number of developments have commenced both in Dublin and the regional centre. While the commercial property availability level may not have a direct impact on the level of FDI to Ireland it could impact on the decision making process as the overall cost of doing business in Ireland increases with rent growth and increasing inconveniences associated with a lack of office space. The Irish Government needs to ensure that prime rents remain at a competitive level and facilitate the supply of high quality office space.

Financial services

Despite that fact that Ireland's financial services industry continues to have a very strong performance even in the context of its recent financial turmoil, according to the Z/Yen Group the attractiveness of Dublin compared to the other world financial centres has declined significantly over the past years.

According to the Global Financial Centres Index, March 2014, Dublin is just ahead of Malta and Manila and its 66th rank compares with its number 15th rank in March 2007, 13th in September 2008, and 23rd in September 2009.

A major factor in this decline has been the overall economic decay faced by Ireland. However, following the country's successful bail-out exit in December 2013, it is expected that the overall perception of the Irish economy's strength will improve and stimulate further FDI inflows.

Ireland was the first country to exit the EU bail-out programme. This sent a powerful message to the world about the strength of the Irish economy. In this context, the Irish Government should aim to restore and further promote the image of Ireland as a strong, stable economy that provides a good foundation for investors interested in the EU market to establish its operations.

Conclusions

Ireland's proximity to mainland Europe, its membership in the EU and the Eurozone provides FDI investors with access to a market of over 500 million consumers with reduced trade barriers and currency exchange risks. Ireland's developed financial infrastructure is well positioned to provide high quality services for international investors.

Transport, communications and property infrastructures continue to provide challenges to FDI investors. In particular challenges exist in growing the attractiveness of regional Irish locations as destinations for FDI. These infrastructure problem areas are now being addressed to ensure Ireland's continued competitiveness in the global landscape and to reaffirm the importance of both urban and rural locations.

4. Innovation and Intellectual Property (IP)

Introduction

Intellectual Property (IP) is a valuable asset and the subject of both abuse and infringement. As Ireland move towards a more global, knowledge based economy the importance of IP and its protection will be fundamental in the attraction of FDI to Ireland.

Ireland continues to make significant efforts to stimulate innovation, and encourage Research and Development (R&D) activities to further increase the countries attractiveness as a location for FDI.

The Amárach Research survey undertaken highlighted that IP protection is seen to be a fundamental part of the FDI repertoire and Ireland is seen to score strongly in the area. However, there was limited awareness of the range of amendments suggested by the Copyright Review Committee.

This section reviews the advantages of the existing IP environment in Ireland and considers IP related issues that have the potential to hinder efforts in attracting and retaining even greater levels of FDI.

The Irish government has been proactive in its efforts to encourage R&D, ensuring that Irish IP laws are kept relevant and up-to-date.

> Ireland is now considered one of the leading R&D and innovation (RD&I) locations in the world. Ireland has the capacity to meet the needs of RD&I investors and offers the ideal commercial, political and social environment in which to carry our successful and profitable RD&I activities.
>
> **IDA Ireland, "A winning proposition for research, development & innovation"**

Intellectual Property protection laws

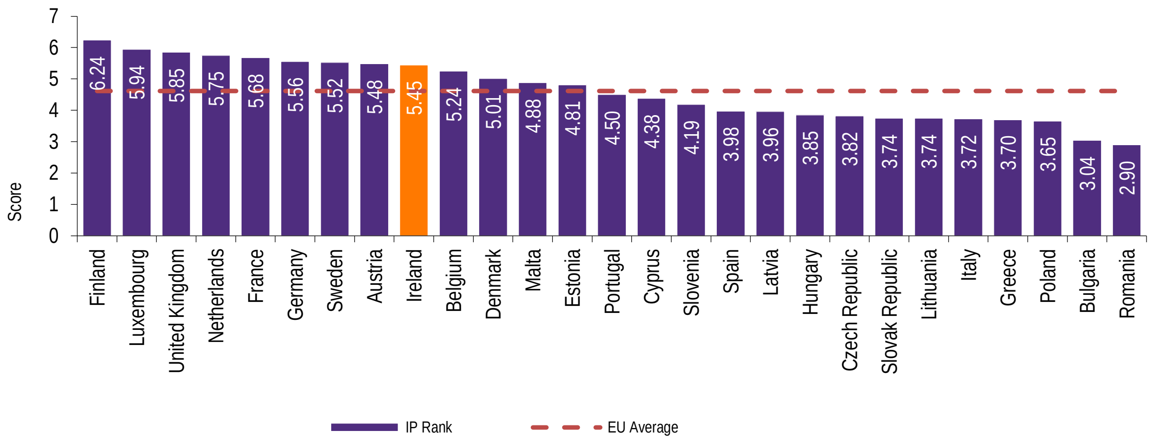
Ireland's IP laws offer comprehensive and practical protection to businesses who distribute IP intensive products from Ireland. IP protection in Ireland is guided by the following:

- The Irish Trade Marks Act 1996;
- The Patents Act 1992; and
- The Copyright and Related Rights Act 2000.

In addition to domestic regulations, Ireland fully complies with EU and international agreements including:

- The Paris Convention;
- The Berne Convention;
- The Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement;
- The Geneva Copyright treaties; and
- The Madrid Protocol 2001.

Figure 4.1 – IP framework strength perception[2]



Source: World Economic Forum, 2013, "The Global Competitiveness Report 2013–2014"

According to the European Patent Office, Ireland's strong national and international IP laws have created an attractive and protective environment for R&D intensive companies. These companies now account for over 50% of Irish GDP and 23% of total employment[3], which reinforces the direct correlation between IP and FDI.

Copyright review committee

Ireland continues to proactively explore new ways to improve its IP protection regime. The Copyright Review Committee was established in May 2011, to review the existing legislation. Most recently, the Copyright Review Committee presented a report outlining recommendations for improvements in the Irish IP regime.

The key recommendations relate to:

1 the establishment of a Copyright Council of Ireland;
2 the creation of specialist IP tracks in the district and circuit courts; and
3 the introduction of tightly-drawn exceptions for innovation and fair use.

The introduction of the Copyright Council is a major step forward for the Irish IP Framework, it introduces a digital copyright exchange and will support efforts to educate and advise companies on copyright issues both at a national and international level.

The implementation of these recommendations will further strengthen the Irish IP regime and provide further assurance and incentive for companies looking at Ireland as an FDI destination. In particular the inclusion of a digital copyright exchange will help future proof Ireland's attractiveness as a destination for FDI.

EU wide IP framework

Ireland participates in a number of EU IP related agreements. Such agreements allow Ireland offer inward investing organisations protection of their IP rights across multiple European jurisdictions.

Ireland has ratified the European Patent Convention (EPC) and the Patent Co-Operation Treaty (PCT). Under the EPC applicants can secure patent rights in a number of EU countries through filing a single application to the European Patent Office. The PCT Treaty also allows patents to be secured in multiple jurisdictions by filing a single application form.

[2] World Economic Forum, 2013, "The Global Competitiveness Report 2013–2014"

[3] The European Patent Office, the Office for Harmonization in the Internal Market, 2013, "Intellectual property rights intensive industries: contribution to economic performance and employment in the European Union, Industry-Level Analysis Report, September 2013"

Ireland is part of the Registered Community Design Right and the Unregistered Community Design Right, which cover all Member States of the EU. Under the Registered Community Design Right once registered the new design is granted protection in the EU for 25 years. The Unregistered Community Design Right grants protection to designs without protection for 3 years since the design is first made available to the public.

Ireland's participation in EU wide IP protection agreements makes it easier for companies who chose Ireland as a destination for investment to register IP rights and reduces the costs associated with IP registration. This ease of doing business coupled with powerful EU wide IP protection combine to make Ireland a most attractive destination for FDI.

Transatlantic Trade and Investment Partnership (TTIP)

The EU has been proactively pursuing its own trade agreements. Given the link between IP protection and international trade it is unsurprising that these agreements generally include IP provisions with the aim of harmonising regulatory frameworks and the protection of each parties IP rights.

Most recently, the EU has been negotiating with the USA on the Transatlantic Trade and Investment Partnership (TTIP). Although both the EU and the USA have efficient rules on IP protection, the agreement will make trade easier and further enhance Ireland's attractiveness as a destination for FDI with US Multinationals.

Research and development support

The Irish Government provides a number of different support mechanisms to companies engaged in IP and R&D related activities. The most significant commitment Government has made in relation to R&D is the tax credit for R&D activities (as discussed in the taxation section of this report).

Ireland's Research and Development (R&D) ecosystem is further supported by agencies including the IDA, Enterprise Ireland and Science Foundation Ireland (SFI) among others. In addition to the tax credit, a number of other incentives are available via these agencies and these include:

- IDA Ireland has an Research Development and Innovation (RD&I) Programme of grant aid for RD&I projects;
- IDA Ireland and Enterprise Ireland jointly operate Competence Centres, creating clusters for collaborative research on common industry problems;
- Research clusters are operational across multiple industries including Pharmaceuticals, Biotechnology, Medical Devices, ICT and Financial Services;
- Enterprise Ireland's Innovation Partnership Programme funds research alliances between industry and academic;
- SFI's Centres for Science, Engineering and Technology (CSETs) fund major university based centres of collaborative research with industry;
- SFI also funds Strategic Research Centres (SRCs) to do collaborative research in selected research themes deemed important for Ireland's future economic growth;

This rich tapestry of R&D incentive programmes demonstrates the determination of the Irish government to foster a favourable environment for innovation and R&D intensive FDI.

IP related issues

Ireland continues to improve its IP legislation to ensure that it provides appropriate protection to right owners whilst continuing to encourage creative and innovative thinking.

Our research indicates that some of the most recent developments in the area of IP regulation may negatively impact on the overall perception of the Irish IP protection system, creating issues for Ireland as a location for FDI.

Enforcement

Issues around the enforcement of Intellectual Property Rights (IPR) are a significant barrier to international trade and by association the continued attraction of FDI to Ireland.

The lack of harmonisation of IP legislation, notably with developing countries represents a test for IP protection internationally. According to the European Commission almost 90,000 IP infringing cases were registered by Customs in 2012. This demonstrates how the infringement of IPR continues to be a significant issue despite global reform efforts.

Although customs officials are effectively doing their jobs, many developing countries continue to deliberately disregard IP protection regulations and supply contraband to EU markets. Without real reform in these regions, IP infringements are likely to continue to grow and as a consequence detract from Ireland's competitiveness as a destination for FDI.

Ireland in seeking to secure the country's position as a destination for FDI must continue to participate in and promote efforts aimed at harmonising IP legislation. Despite the fact that a large portion of shipments that violate IP originate from developing countries, it is important to ensure that these countries are not excluded from the global market and are given an opportunity to access and join the IP protection mechanisms so competition for FDI can be conducted on a level playing field.

Proposed changes to IP regulations

One of the more debated topics in IP legislation in recent years has surrounded the issue of standardised (or plain) packaging, specifically in the area of tobacco. The objective of standardised packaging is to remove the "fashion element" from the culture of smoking with the ultimate aim of reducing demand.

Initially introduced in Australia, the Irish government gave its approval in May 2013 to begin the process of introducing standardised packaging into Ireland and the Public Health (Standardised Packaging of Tobacco) Bill 2014 was presented to the Oireachtas in June 2014. Ireland will therefore be only the second country to introduce such a measure.

In the context of attracting FDI it is important that this issue is considered given that the President of the US Chamber of Commerce has written to the Taoiseach to express his concerns that the standardised packaging proposals would *"undercut well-established protections for intellectual property."*[4]

Similarly, speaking at the International Trade Mark Association's Annual Meeting in May 2014, Myrtha Hurtado Rivas, Global Head of Trademarks, Domain Names & Copyright at Swiss pharmaceutical giant Novartis Pharma (who employ around 1,500 people across four sites in Dublin and Cork) stated in relation to standardised packaging that:

> Going too far will make things more difficult in the fight against counterfeit drugs. There are other things that can be done…. major doubts persist whether standardisation and plain packaging will achieve [its] objectives.

http://www.worldipreview.com/news/inta-2014-pharma-concerned-about-plain-packaging-s-advance-6660

4 http://www.irishtimes.com/news/politics/tobacco-lobby-steps-up-campaign-against-plain-packaging-1.1835924

Our analysis suggests that introduction of plain packaging could have a number of implications, including:

1 Implications at the EU level
   a Ireland as a part of the EU single market will not be able to completely ban import of branded products; and
   b The Community Trade Marks are recognised in Ireland, therefore restriction on the use of specific trademarks will result in wider international legislative issues.

2 Damage international reputation of Irish legislative framework
   a High proportion of IP intensive industries in Ireland; and
   b Reputational damage from foreign investors surrounding the commitment to the protection of IP.

3 Precedent
   a There may be concern from other industries that such measures may be introduced into other areas such as food or drink.

4 Increase illicit trade
   a It will become easier and cheaper for those involved in illicit trade to produce illegal products.

> "These measures, if adopted, would send an immediate signal to foreign countries and investors about the standard of IP protection in Ireland"
>
> **Presentation by Ibec to Oireachtas Committee on Health and Children, 6 February, 2014**

Beyond these issues it remains to be seen whether or not the introduction of such a measure is in fact legal or will have any impact on reducing the prevalence of smoking in Ireland.

From those surveyed, two issues of concern were raised; the implication of the plan itself for those who owned the affected brands (which they saw as unjust in principle) and the fact that Government could act to undermine the property rights of brand owners generally. The stakeholder interviewees were worried about the precedent issue and brand restrictions spreading into other areas such as is occurring with proposed sugar taxes. Some of the Irish stakeholder interviewees were also concerned about the branding issue. US based interviewees were less prepared than their Irish counterparts to make an exception for tobacco products and treat it as a health issue rather than an IP issue.

Government efforts to reduce consumption of tobacco should be commended. However, the introduction of standardised packaging introduces significant risk and a precedent that could have unintended consequences for both Exchequer receipts and international investment in Ireland. Of those who expressed an opinion in the Amárach Research survey, 44% stated that the introduction of brand restrictions would have an impact on the decision to invest in Ireland.

Ultimately, the lack of concrete data available at this point to demonstrate the success of standardised packaging in Australia suggests that the Government should await more detailed evidence on its merits and clarification of its status under international law before pursuing the process further.

Conclusions

Ireland's strong and internationally recognised IP regime and the country's substantial research and development support offering greatly contribute to the islands continued success in attracting and retaining FDI.

The lack of enforcement and harmonisation of international IP legislation along with proposed changes relating to plain packaging create issues for Ireland as a destination for FDI. It is important that any significant changes to the Irish IP regime are thoroughly reviewed from both a national and a wider international perspective to ensure no adverse effects on the attractiveness of Ireland as a location for FDI.

5. Cost of doing business

Introduction

Costs associated with doing business in a country are a key component in the thought process of any potential FDI investor. The costs of doing business generally include labour costs, transportation and utility costs, property and other input costs.

Ireland has traditionally been perceived as an expensive place to do business. The country will never compete for FDI on the basis of the cost of doing business alone, but the on-going management of costs is an integral component in increasing Ireland's overall attractiveness as a destination for FDI.

Ireland's cost attractiveness improved over the course of the economic crisis and as the country emerges from the recession it is necessary that costs are managed to a level which ensures Ireland does not become prohibitive in attracting FDI into the future. This section of the report looks at those factors which create advantages and issues for Ireland as a destination for FDI from a cost of doing business perspective.

The table below details the results obtained from the Amárach Research survey undertaken to form the basis of this section of the report.

On a scale of 1 to 5, where 1 is strongly, 3 is neutral and 5 is strongly agree	
The cost of labour is high	3.8
Energy costs are high	3.7
Ireland is still more expensive than elsewhere	3.5
Transport costs are high	3.3
Comms costs (e.g. broadband) are high	3
Commercial property rents are high	3

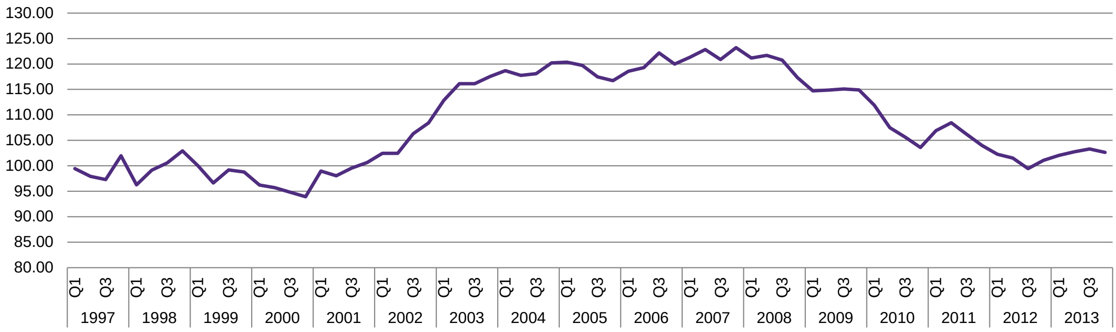
It is recognised that the economic adjustments of the last seven years served to increase Ireland's competitiveness. There is also a recognition that Ireland has begun to get more expensive as the economy begins to recover.

A declining cost of doing business

When making an investment decision FDI investors aim to minimise costs associated with setting up a business whist also maximising other available benefits.

The Central Bank of Ireland's Real Harmonised Indicators (RHI) demonstrate that Irish cost competitiveness has improved significantly following the economic crisis. In 2012, the cost of doing business in Ireland reached its lowest level since 2002. This improvement mainly related to favourable exchange rates and overall reductions in relative prices.

Figure 5.1 – Harmonised competitiveness indicators 1997-2013



However, since the end of 2012, it would appear that the costs of doing business in Ireland are again on the increase. For Ireland to remain competitive in attracting FDI the cost of doing business here needs to be managed in a sustainable manner.

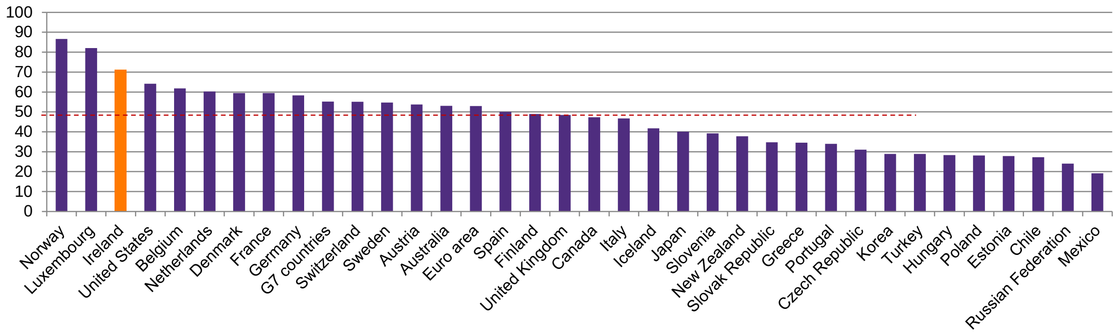
Source: The Central Bank of Ireland, Harmonised Competitiveness Indicators

Labour productivity

When compared with other EU and OECD countries, Ireland has one of the highest levels of labour productivity. High labour productivity means a higher return on investment for employers.

Ireland's labour productivity has been increasing steadily over the past number of years. However, it is important to note that much of this improvement can be associated with the changes in employment patterns, specifically a decrease in the level of employment in some labour intensive and low labour productivity industries (i.e. construction)[5].

Figure 5.2 - Labour productivity comparison 2012.



Source: OECD, Labour productivity levels in the total economy, Accessed 28 April 2014

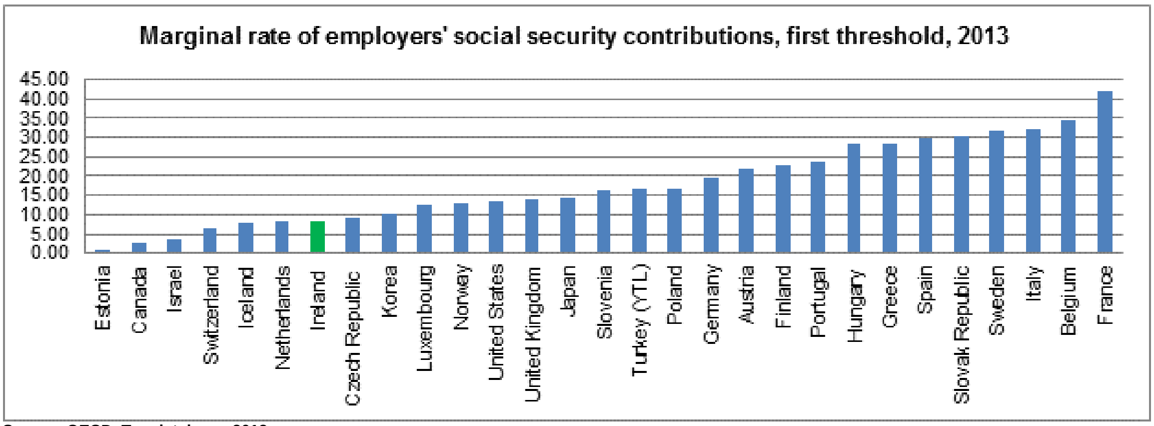
High labour productivity reduces the overall costs associated with carrying out business activities and contributes to the country's overall attractiveness for FDI.

Social security contributions

Ireland's low employers' social security contributions make it an attractive destination for inward investment. Ireland has one of the lowest levels of social security contributions amongst OECD and EU countries[6]. Low rate of social security contributions reduces the total labour costs and further improves the overall cost competitiveness of Ireland.

[5] Forfas, Ireland's competitiveness performance, 2013
[6] OECD Tax database, 2013

Figure 5.3 - Employers' social security contributions rates 2013



Source: OECD, Tax database, 2013

Despite some positive changes Ireland continues to be an expensive destination for business activity. Costs relating to labour, transportation, utilities and property, in addition to general costs of living need to be controlled if the country is to remain an attractive destination for FDI.

Labour costs

Labour costs are a significant component in the overall costs of business as outlined in the Amárach Research survey results. The cost of labour is an important factor in an investors' decision-making process.

Labour costs in Ireland remain high when compared to many OECD and EU countries. Ireland has the 8th highest gross wage level in the euro area-16 and the 6th highest net wage level[7].

The Central Bank of Ireland highlights that improvements in the productivity and unit labour cost in 2009-2011 are unlikely to continue in the years ahead[8]. Whilst unit labour costs in Ireland declined between 2009 and 2012, the most recent data from the Central Bank of Ireland indicates an increase in absolute unit labour costs of 3.2% in 2013 and projects a further increase of 1.2% in 2014 before stabilising in 2015.[9] Whilst some growth in labour costs is natural, it is important to ensure that the cost doesn't grow excessively compared to other FDI destinations to ensure to Ireland's cost competitiveness and attractiveness is not disproportionately eroded.

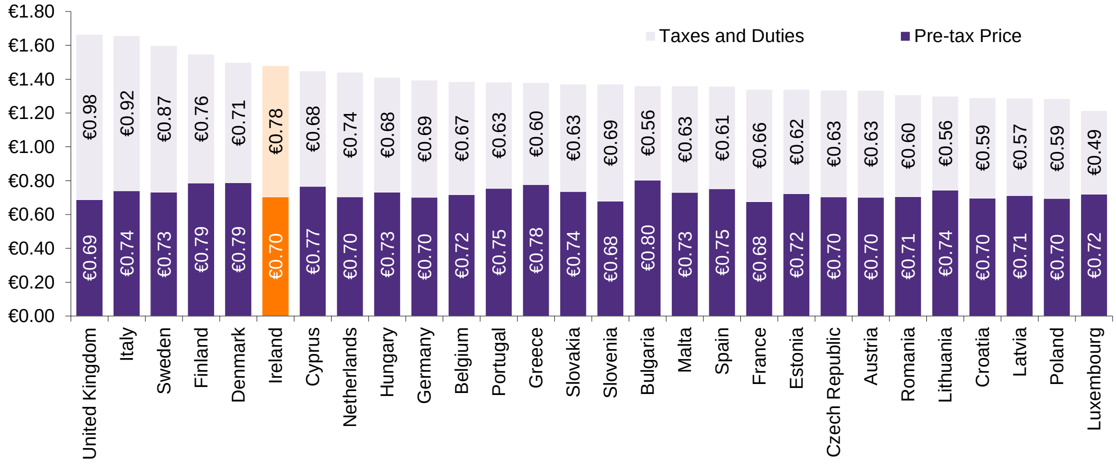
Transportation

The availability of transportation networks and the cost of transportation remains one of the key factors in the investment decision especially in the context of an island economy, such as Ireland. Transportation costs are usually more important for manufacturing industries than service sectors.

Diesel costs in Ireland are above the EU average and the 6th most expensive in the EU[10]. In terms of international freight many components of the cost such as international fuel costs and taxes, are outside the control of the Irish policymakers and therefore cannot be manipulated.

[7] Costs of doing business in Ireland, Forfas, 2014
[8] The Central Bank of Ireland, Quarterly Bulleting, 2014 Q2
[9] The Central Bank of Ireland, Quarterly Bulleting, 2014 Q2
[10] EU Oil Bulletin, January 2014

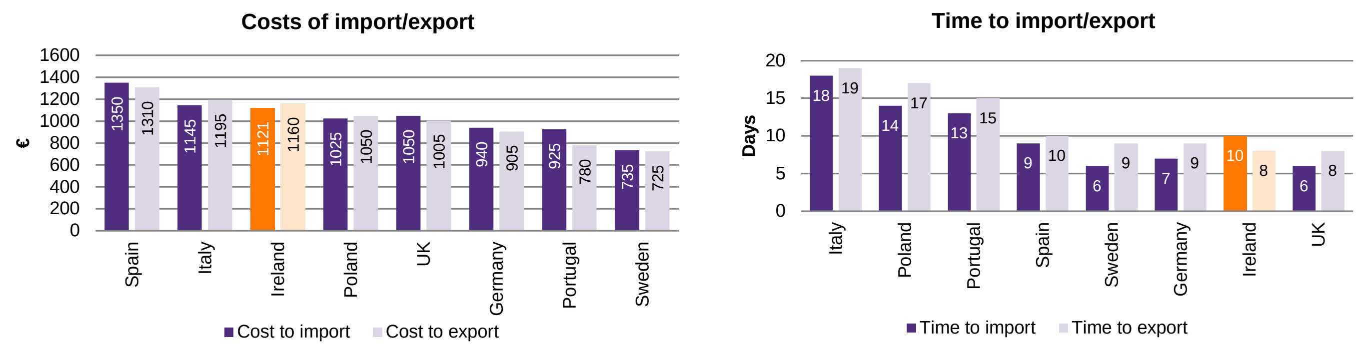
Figure 5.4 - Diesel price comparison, 6 January 2014



Source: EU Oil bulletin, 6 January 2014

One area of the transportation costs that Ireland can actively target is the administrative expenditure associated with transportation. According to the World Bank the cost to import or export a standard 20-foot container in or out of Ireland is above the Eurozone average of €1,101 and €1,044 respectively. The time required to import into Ireland is higher than in other EU countries, its takes 7 days in Germany and 6 days in the UK compared to 10 days in Ireland. Time required to export in Ireland is at the same level as it is in the UK and lower than in Germany. Given that the majority of FDI companies in Ireland are export driven, Ireland's performance is competitive in terms of export days, however the fact that Ireland's import requires longer period of time means that it takes longer to import any raw materials in to the country.

Figure 5.5 - Time and cost to import/export



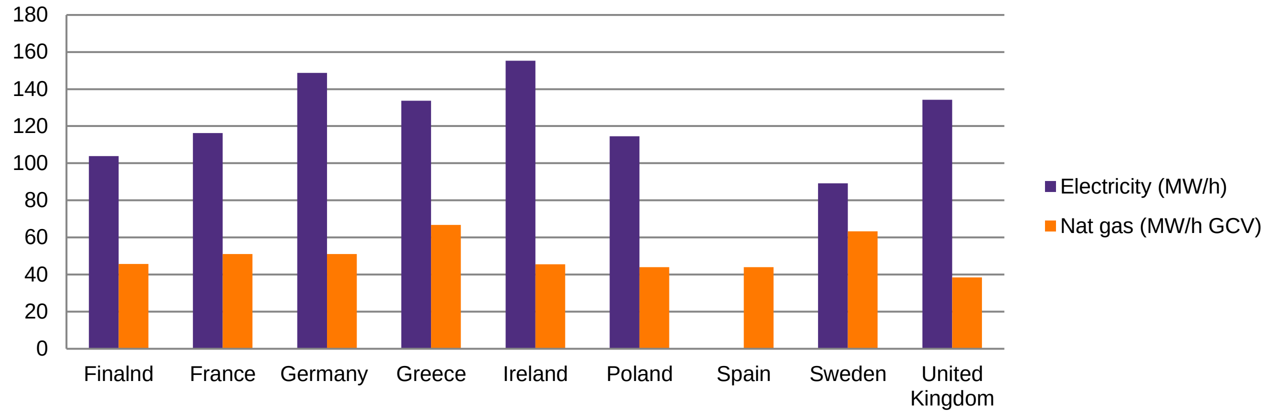
Source: World Bank, Doing Business 2014

Utilities

The cost of utilities includes natural gas, electricity, and water and telecommunication costs. This report compares costs in Ireland with costs in other EU and OECD destinations.

The cost of natural gas for business consumption in Ireland is competitive and is at a level below the EU average. The cost of electricity in Ireland for commercial use is higher compared to other major EU FDI destinations. Figure 5.6 below sets out comparison of electricity and natural gas costs across some of the EU countries.

Figure 5.6 – Electricity and natural gas prices, commercial use



Source: International Energy Agency, 2013, Key World Energy Statistics

According to the National Competitiveness Council of Ireland, Ireland is the 5th most expensive country out of 16 benchmarked in terms of the industrial water services. In addition, the water services sector in Ireland is in the process of some major changes as a new agency responsible for provision and management of water services in Ireland – Irish Water - was established earlier this year. As a result of these reforms, there will be changes regarding water charges imposed on business operations in Ireland.

In terms of telecommunications, Ireland's cost of broadband connection continues to be expensive when compared to other countries with subscribers paying €41.8 monthly compared to €27 per month in the UK.

Utilities are required to support the continuation of business activities on a daily basis and therefore the quality and price of it can influence the quality of operations and significantly impact on the cost of doing business.

Property

Following the 2008 crisis and the end of the construction bubble both commercial and residential property costs in Ireland reduced significantly. However, as the economy continues to recover, increased levels of business activity have resulted in an increase in demand for Grade A commercial offices space. This combined with a limited supply has driven rental costs up. In 2013 prime office rents increased by 6.2% in Dublin, compared to 14.3% increase in London.[11]. In regional centres, such as Cork, Limerick and Galway, overall availability levels remain high, with similar to Dublin limited supply of Grade A offices.[12] However, as a number of developments have commenced across the country, it is expected that increased supply will help to stabilise rental costs.

In addition to the above, businesses in Ireland are required to pay commercial rates for occupation of non-domestic properties. The commercial rates charge depends on the valuation of the property occupied. Commercial rates increase the cost of doing business in Ireland and can act as a disincentive for investors to choose Ireland as an FDI destination.

Cost of credit

The availability of credit and cost of it is an important factor when setting up a new business. Access to both short term and long term credit is important to companies operating in Ireland. Companies often require finance to set up operation, to expand or to finance its working capital

[11] CBRE, 2013, Global prime office occupancy costs
[12] DTZ, Sherry FitzGerald, Irish Office Market Review 2013/Outlook 2014

and as credit from overseas and parent companies may not be always available, they may need to borrow from an Irish financial institution.

According to the National Competitiveness Council, Ireland continues to have higher interest rates when compared to the EU average across a range of credit products[13].

Cost of living

Ireland continues to be an expensive place in terms of the cost of living. Dublin was ranked number 21 - just outside the top 20 most expensive places to live in 2013. This means Dublin has moved up 13 places compared to 2012 when it was ranked 34th[14]. Although Ireland is regarded as having quite a high cost of living, the quality of living is also high with Dublin ranking highly in Europe for health and sanitation. In the Mercer's Quality of Living Ranking, Dublin is placed 34th out of 223 cities, ahead of London and Tokyo.

Conclusions

The overall cost competitiveness of Ireland has improved, however Ireland continues to be an expensive place to do business when compared to some other EU destinations. Cost of labour, transportation, utilities and property costs remain high. As costs of doing business are purely location related, it is vital to ensure that Ireland's cost competitiveness improves. Irish policy makers should aim to improve the cost areas that are directly under their controls, such as administrative expenses and time required to carry out import/export. This would make Ireland a more attractive destination for FDI.

[13] Costs of doing business in Ireland, Forfás, NCC 2014
[14] http://www.irishtimes.com/news/consumer/cost-of-living-in-dear-old-dublin-is-rising-again-1.1712178