DÁIL ÉIREANN

AN COMHCHOISTE UM POIST, FIONTAIR AGUS NUÁLAÍOCHT

JOINT COMMITTEE ON JOBS, ENTERPRISE AND INNOVATION

Dé Máirt, 18 Feabhra 2014

Tuesday, 18 February 2014

The Joint Committee met at 1.30 p.m.

MEMBERS PRESENT:

Deputy Dara Calleary,	Senator Deirdre Clune,
Deputy Áine Collins,	Senator Feargal Quinn.
Deputy Michael Conaghan,	
Deputy Damien English,	
Deputy Seán Kyne,	
Deputy Anthony Lawlor,	
Deputy Peadar Tóibín,	

DEPUTY JOHN LYONS IN THE CHAIR.

The joint committee met in private session until 1.35 p.m.

Forthcoming Competitiveness Council: Minister for Jobs, Enterprise and Innovation

Chairman: We are in public session. We have a briefing by the Minister for Jobs, Enterprise and Innovation, Deputy Richard Bruton, on the forthcoming Competitiveness Council meeting in Brussels on 20 and 21 February 2014. I welcome the Minister for Jobs, Enterprise and Innovation, Deputy Richard Bruton, and his officials to the meeting. As Members are aware the Minister is here to brief the committee on the relevant Competitiveness Council agenda items scheduled for 20 February in Brussels. I invite the Minister to make his presentation.

Minister for Jobs, Enterprise and Innovation (Deputy Richard Bruton): It is a pleasure to brief the committee. I am accompanied by officials of the Department, Mr. Philip Kelly, assistant secretary, Mr. Tommy Murray, principal officer, Ms Orla O'Brien, assistant principal officer and Mr. Garry Purcell, higher executive officer, all of whom work on different aspects of the Competitiveness Council agenda, which is quite broad.

The first item on the council's agenda is a policy debate on industrial competitiveness. It is intended that the council would send a clear signal to the March European Council on industrial policy priorities and on ways to improve sustainable industrial competitiveness. The debate will be informed by four Commission communications adopted in late January.

The core Commission communication, adopted on 22 January, "For a European industrial renaissance", was presented by Commissioner Tajani. It does not promote any particularly new initiatives but sets out the Commission's key drivers and priorities for EU industrial policy and industrial competitiveness. It also proposes to increase the share of manufacturing in GDP from 15% currently to reach as much as 20% share of GDP by 2020.

It draws on the recommendations contained in the Commission's annual growth survey, found at *ec.europa.eu/europe2020/pdf/2014/ags2014 en.pdf*, provides an overview of actions already undertaken and puts forward selected priorities to speed up the remaining actions. It reflects our own belief that we need to focus more on industrial strategy and on manufacturing potential that is probably untapped.

The European Commission is urging member states to recognise the central importance of industry for creating jobs and growth, and of mainstreaming competitiveness concerns across all policy areas. This is the key message of the communication.

The Greek Presidency will chair a policy debate at the council on industrial competitiveness on the basis of this core communication. The results of that debate will be fed into the similar debate on energy, climate change and industrial policy which is to take place at the European Council meeting of 20-21 March 2014. The Presidency has also associated three other important Commission communications recently published, namely, "A vision for the internal market for industrial products", which builds on the results of the evaluation of EU law in the area of industrial products to assess the regulatory framework's overall coherence and fitness for purpose; "Energy prices and costs in Europe", which analyses the cost of energy across Europe and proposes actions to reduce energy costs in the context of Europe's global competitiveness; and "A policy framework for climate and energy in the period from 2020 to 2030", which proposes a new policy framework around energy efficiency, renewables and emissions to 2030.

The common strand through each of these communications is that, in Europe, a policy supportive of a strong role for European industrial actors needs to address all policy areas in a co-ordinated way in order to promote this transformation. That means developing better co-ordination mechanisms to address more coherently different policies such as environmental, climate, energy, trade, competition, skills, state aid and regional policies, all in support of sustainable jobs and growth. For some time competitiveness Ministers have been grappling with the problem of how to achieve greater coherence across the policy spectrum between national and EU efforts. Our view is that there is an onus on the Competitiveness Council to robustly monitor and track all unintended consequences of other council formations decisions and policies in the context of competitiveness and jobs.

For example, high energy costs are now a significant threat to Europe's competitiveness. Therefore, competitiveness and energy must go hand in hand and the new 2030 climate framework must take into account international competitors and the development of an internal energy market and energy infrastructures and interconnections. The energy price gap is so wide that gas in Europe is three times more expensive and electricity twice as expensive as in the US. As a result, the transfer of production from Europe to the US is a real threat. Therefore it is very important that the internal market in energy is completed as a contributor to lower costs for industry and business - the energy-intensive manufacturing sector in particular. This is a vital component towards sustaining Europe's external competitiveness.

While the communication calls for the EU to continue to vigorously pursue free trade agreements, the final conclusions themselves could have mentioned the strengthening of links between trade and free trade agreements and completion of the internal market and the growth agenda in that regard. I believe that we have to exploit the added value and benefits of free trade agreements as a contributor to global regulatory convergence, jobs, growth, the export potential of goods and services, and in particular internationalisation opportunities for SMEs.

The communication fails to mention the potential for "reshoring" or "in-shoring" of firms and industry back to Europe as a consequence of advances in technology, competitiveness gains, etc. Industrial competitiveness can play an important role in rebalancing an economy and boosting growth, and in raising the potential for "reshoring" industry back to Europe. Furthermore, the pervasive development of global value chains requires a focus on encouraging strong European networking and inter-firm linkages to build competitive advantage and enhance productivity gains.

The next agenda item is a policy debate on integration of the EU's internal market and aspects of the European semester. In terms of how member states have implemented the 2013 country specific recommendations in key areas, the report from the Commission indicates that more needs to be done in product and services markets to boost the EU's growth potential and in improving the business environment.

The commission's second annual report on single market integration presents an analysis of the state of such integration in five single market priority sectors, with the highest growth potential; namely, services, financial services, energy, transport and digital markets. Based on its assessment of where progress was made and where challenges remain, the Commission identifies further priorities for national reforms, including a more ambitious implementation of the services directive as well as liberalisation of the regulated professions. Incidentally, this is the first year where Ireland comes into these country specific recommendations, because this process of the European semester did not apply in Ireland as the troika recommendations were applied to Ireland.

Services markets are important sources of job creation in Europe. In Ireland, the services sector accounts for 69% of GDP and 78% of employment overall. The services covered by the services directive amount to 45% of EU GDP. Ireland has also been ranked as the world's third most globalised nations in terms of GDP. Both the Commission and the European Parliament consider that a more integrated and better functioning single market for services is vital to contribute to the economic recovery of the EU and to the ability of Europe to trade globally. In linking this with the other previous agenda items, I believe that enhancing industrial competitiveness necessitates a robust openness to international trade, because trade and competitiveness are interlinked and trade provides the opportunity for SMEs to internationalise and obtain access to global supply chains. As we know, the productivity gap between the EU and the US is growing partly due to under-investment in ICTs and relevant skills, failure to complete the digital single market and regulatory barriers across services markets, to name but a few. That is why it is so important that in tandem with completing our own internal market, an ambitious free trade agreement with the United States is delivered - one that addresses non-tariff barriers, takes concrete steps to secure significant regulatory coherence and opens procurement opportunities for European companies.

The Commission estimates that the measures which member states have adopted to implement the services directive will, over time, generate an additional 0.8% of EU GDP, with the majority of the effect materialising during the five to ten years following implementation. Economic analysis has shown that if all member states were to abolish almost all of the remaining restrictions, the total economic gain would be more than three times than what has already been achieved. This amounts to 2.6% of GDP. Therefore, the Commission is striving to ensure that the unequivocal obligations contained in the services directive, such as prohibition on nationality or country of residence grounds, are tackled vigorously. The purpose is to put an end to practices by some member states, professions or businesses that unjustifiably hamper access to their services by residents in other member states.

I will mention the National Competitiveness Council's AOB items only very briefly. The first item is information from the Commission on the ninth meeting of the Union for the Mediterranean on Euro-Mediterranean industrial co-operation. The next two items are in respect of an update on the proposal for a Council recommendation on the European tourism quality principle. The overall objective of the initiative is to bring a certain level or consistency into the quality of tourism services among the participating service providers across the EU. The next AOB item is about a European strategy for coastal and maritime tourism, which clearly is of interest to Ireland.

The Italian delegation has requested an AOB item on the impact on the EU *acquis* and internal market of a "hybrid" nutrition labelling system recommended in some member states. This is an issue that comes under the remit of the Minister for Health. Italy and a number of other members states are objecting to the voluntary food labelling scheme introduced in the UK under the EU food information regulations. Some member states are concerned that multiple nutritional labelling schemes might be endorsed, confusing the consumer. Ireland intends to carry out a public consultation to ascertain public support for such a scheme. The next AOB item involves an update from the Commission on state aid modernisation. The discussion at the council will focus on a short update from Commissioner Almunia on the progress of the state aid modernisation initiative.

The next AOB relates to the proposed directive on disclosure of non-financial and diversity reporting for certain large companies and groups. The Council will be updated by the Presidency on the state of play in the negotiations with the Parliament on this proposed directive. Our position on the draft directive has been positive overall. However, we have looked for some amendments which we believe would improve the text, with the intention of introducing more flexibility and making it less burdensome for companies to implement. I hope that the current negotiations will result in a workable instrument. The next item is an issue being dealt with by the Minister for Public Expenditure and Reform and is related to information from the Commission on a proposal for a directive on electronic invoicing in public procurement. The final AOB item is a state of play report from the Commission on a proposal for a Council regulation on the Statute for a European foundation. This dossier comes under the remit of the Minister for Justice and Equality.

As we can see, it is a pretty diverse agenda. I am happy to take any comments or questions.

Deputy Dara Calleary: I thank the Minister and his officials for their attendance. The agenda is broad at the National Competitiveness Council, but it strikes me that employment and job creation are periphery to this agenda. The agenda states that the European Commission is urging member states to recognise the central importance of industry for getting jobs and growth. That is Andrex puppy stuff; everybody loves it. Where are the specifics in respect of job creation? The four Commission communications are for a European industrial renaissance, a vision for an internal market for industrial products, energy prices and costs in Europe, and a policy framework for climate and energy. Are there job creation targets associated with each of those communications? Or are they just waffle statements with very nice English? Has a SWOT analysis been done on the implementation of the Commission directives that might cost jobs in some member states? Surely job creation and job protection should be at the heart of all of those communications. I do not get a sense of it from this.

Can the Minister provide an update on the state aid modernisation AOB item? What is its potential impact on Ireland and our current state aid regime? I am glad the Minister is going to introduce the "reshoring" industry agenda, but the UK has implemented a very successful strategy in recent months. There was a very good report last night about reshoring industry back into the UK, even heavy manufacturing, which we were told was gone in that country. Have we learned from that so that Ireland can bring back manufacturing jobs that may have been lost to other countries in recent years? Is there a strategy in place for doing that?

Deputy Richard Bruton: I can understand why the Deputy would be looking for more action. The areas of initiative are not a surprise. They are about better integration of the market, which will promote opportunities. They are about improving the operation of the digital market, which has a big untapped potential in Ireland. It is estimated that 75% of online trading goes out of Ireland. This is about Horizon 2020 and the €80 billion investment involved, and the attempt to focus more of that on manufacturing.

The big call from Commissioner Tajani is around what he calls the renaissance of manufacturing and the belief that manufacturing has declined too low. Therefore, a target is set from 15% of employment to 20%. We could turn that into a concrete jobs target. Much of what is in the document is not dramatically new but we see the same in our own environment. Much of what we should be doing to drive employment does not involve grandiose magic silver bullets. It is around improving the business environment, looking at access to finance and sectoral opportunities and seeking to develop these by building clusters and research capability around them. This is a realistic assessment of what it takes. It takes action in Europe across the board.

We see it all there.

Deputy Dara Calleary: We need more urgency. That is the frustration. We do not get a sense of urgency from this document.

Deputy Richard Bruton: To be fair to Commissioner Tajani, he certainly has a sense of urgency. Europe has put its money behind it. The Horizon 2020 programme involved a substantial increase in a welcome sense from an Irish point of view because we are top of the league in terms of access to funds for SMEs under the programme. The programme has increased the proportion going to small and medium-sized enterprises from 15% to 20%. The Commission has identified as key priorities advanced manufacturing, key enabling technologies and bio-based products. The Commission goes through the list in the document. Clearly, delivery is everything in this area. There is a clear view within the European Council and the Heads of State, that a growth strategy is needed for Europe and that growth strategy will be a micro-growth strategy. It is in these areas. It is a political judgment to say whether there is a sense of urgency but I believe there is a sense of urgency. Clearly, we would like to see more. As the committee is aware, a budgetary ceiling was put on what member states would agree to under the European budget for the coming years and, therefore, Europe must work within the budgetary constraints.

Reference was made to state aid modernisation, which deals with a broad area. There are aspects relating to reform of the *de minimus* rule. The Commission is increasing the *de minimus* rule. There are several aspects but regional aid is the area of most interest for people in Ireland and we need to advance a new regional aid map by the end of June. In the coming weeks we will be finalising an approach to the regional aid map. It is currently being examined by the various agencies in respect of the balance that must be struck.

In the negotiations there was a rather negative starting point. The proposal was to reduce it such that 25% of the country would have been covered by aid. However, through the negotiation of the directives we got it back up to 51.28% in an Irish context, which is marginally more than where we were under the previous regional aid map.

The other hotly-contested issue was the proposal by the Commission to remove large companies from the so-called C regions. The proposal was that there would be no aid to large companies in the C regions. Again, that was re-negotiated and, essentially, large company aid is still permitted once it relates to diversification, new products or processes or new economic activities. Large company aid remains a possibility within the so-called C regions. Either a country is in regional aid or otherwise and this means the C regions in the context of Ireland. We do not have any A regions.

The Deputy is right about the re-shoring. There was an interesting case recently in Cork involving Tyco, which had pulled out of Cork and left only a small compliance team. Significantly, the compliance team proved rather strategic within the organisation and this helped to win back significant investment. We are alert to the opportunities in this sphere. The Eishtec case involved business process outsourcing but, again, it is interesting that there is growing interest in on-shoring. Where a high-quality added-value service is delivered, it can compete and the vogue for off-shoring is somewhat less than it was. There are opportunities for Ireland in this regard.

Deputy Peadar Tóibín: Ba mhaith liom buíochas a ghabháil leis an Cathaoirleach agus an Aire. I welcome the presentation. Like my colleague, I take the view that the document is high on aspiration and low on detail. How does the Minister envisage that the industrial proportion of GDP will be increased in the coming period? What key barriers to competitiveness have been identified? Has there been any prioritisation of these key barriers? Often the key barriers are focused on workers' terms and conditions, but there are other key barriers which need to be focused upon as well.

Reference was made to sustainability and energy. What are the details in the proposals on reducing energy costs without going down the US route of energy generation? The regulatory coherence concerning the transatlantic trade and investment partnership is attractive but there is a good deal of scepticism about the projected growth. The Department released a press statement saying there would be a 0.5% increase in the EU GDP. However, in another press statement the Department said there would be a 2.6% increase in European GDP. People in this country have heard of the Lisbon treaty bringing jobs and increasing GDP and they have heard of the fiscal treaty bringing jobs and increasing GDP. Is there any way we can get further detail on that? Has there been forecasting with regard to the level of jobs that will be created from these competitive initiatives? That is the crisis issue throughout the eurozone at the moment. There are concerns with regard to free trade negotiations to the effect that they will favour big business and large agribusiness to the detriment of smaller businesses, smaller farmers and workers' rights. What efforts are being made to ensure that small businesses, workers' rights and small agribusinesses are being protected? Has taxation cropped up in any of these competitiveness negotiations?

Deputy Richard Bruton: I thank the Deputy and he is welcome back to the committee. As I said to Deputy Calleary, it is not unlike our own challenge. Our approach to the Action Plan for Jobs is not altogether dissimilar to the European approach. It considers a wide range of areas. It is possible to see this from the headings, which refer to the integrated market and how we bring down barriers within the market. Clearly, the biggest of these barriers which remain are in the services sector rather than manufacturing. Generally speaking, manufacturing does not have many barriers left. However, there is an opportunity through free trade agreements to bring down barriers. With the United States the tariff barriers would be of the order of 2% to 3% whereas the non-tariff barriers in the areas where they apply run to 20%. The non-tariff barriers within many of the free-trade areas are the real opportunity. The idea is to open up markets by having more standard approaches and mutual recognition of standards. In a country like ours with our pharmaceuticals it represents a big opportunity. Clearly, if we do not have to replicate the same approval network in the United States and in the European Union and if there is mutual recognition, then it takes out costs and allows us to compete. To a considerable degree the integration of markets offers opportunity.

Another area is investing in innovation, new technologies, production inputs and skills. It is similar to our agenda and involves looking at how we use our research budgets in a way that opens up opportunities in sectors where we have a competitive edge in Europe. The document has identified areas such as smart grids, digital infrastructures, clean vehicles and advanced manufacturing. These are areas we would not dispute.

Access to finance, which is a major subject of debate here, is still a subject of debate in Europe. The perceived lack is that we do not have the seed and venture markets typically available in other countries. In the immediate crisis the banks have retreated from much of their appetite for risk. This, in, turn creates additional pressures in Europe and the response from European policy systems is not as successful as one would wish.

On the question of energy, the loss of competitiveness, rather than raw materials, is the reason. We are out of line in taxes and levies and network costs. Raw energy costs are at the centre of most of the tension with regard to shale gas, for example. The report also indicates that there are savings to be achieved in the transmission and distribution networks. The reference to the public service obligation, in turn, raises the issue of renewables. A strong renewables strategy raises the cost of energy in the short term, but in the longer term the view is that a diversified portfolio, with a high level of energy from renewables in the system, will mean that we will have a more robust and sustainable energy environment. It is a case of short-term versus long-term conflict.

Another matter of interest is the funding and integration of energy infrastructure in Europe. Ireland is in a vulnerable position in that we do not have the same level of integration as in the rest of Europe. For example, the advantages of a single European energy market are well known to the Austrians because the market is well interconnected. Ireland's market is only 8% interconnected; therefore, there are particular challenges facing Ireland in dealing with some of these issues.

Skills is a significant theme. The vogue in Europe is the German model of apprenticeship which has been proved to be very resilient in the crash. The Germans have a policy structure that has allowed them to soak up the effects of the recession or depression without an impact on their base which seems to be much more robust. The Minister for Education and Skills, Deputy Ruarí Quinn, has received a report on the future of the apprenticeship system and the debate elsewhere in Europe mirrors ours.

We are undertaking some work on the issue of the cost and benefits. It is a fair comment that in estimating the potential gains some of the models are very conservative, while others are very rosy. It is tricky to be accurate and we need to do more work which will involve examining the sectors in which we have the potential to gain.

Members worry that free trade agreements will only be for the big guys. In many ways, the small guys are screwed by trade barriers because they do not have the sophistication to relocate. It is a common view that free trade agreements are good for smaller trading and enterprises if one can be confident that regulatory approval in one's home market will travel into overseas markets because that would be much easier for SMEs. A larger company will be able to manage the regulatory pitfalls, but I would not be of that view. In any free trade agreement and, in particular, the case of the United States there is no question of a dilution of our policy standards for workers' rights and the environment. We enter into an agreement with these standards intact. The issues of regulatory standards are to do with drug approval systems and harmonisation, for example. An agreement is not designed to undermine public policy. Both sides enter into the agreement with their own public policies which are off limits.

The Competitiveness Council is not an arena for discussion of tax matters which are the business of ECOFIN and other international organisations such as the OECD because taxation matters are relevant in countries outside Europe.

Senator Feargal Quinn: I welcome the Minister and his team. The business of the Competitiveness Council is European competitiveness. One of the areas in which Ireland is in big danger is energy and I ask the Minister to speak about what we can do ourselves. Britain has made a decision about fracking, a subject we have not discussed. The Irish Sea will be the location of fracking. Recently published figures show that Ireland will be one of the largest importers of energy supplies in future years. We can do something about this on our own, rather than relying on others in Europe, but we seem to have turned our backs on it. In the United States ten or 15 years ago the amount of imported energy supplies was making the country uncompetitive. It has since become competitive because it has found its own source of energy. What can we do to reverse the position here? The European Union is not restricting us, rather it is due to our own inability to do something for ourselves.

Another area in which to provide opportunities for small and medium businesses is e-commerce. When I was in a small shop in Estonia, I saw that the company was exporting all around Europe. Half a dozen employees were selling by way of a system of e-commerce. Borders and boundaries are restricting e-commerce and cross-border trade over the Internet. What can we do about this? What is the European Union doing to ensure cross-border barriers are removed?

The Minister referred to complaints about food labelling. We introduced legislation on food provenance. If we were to introduce information on food provenance in food labelling, customers would have more confidence and trust in Irish food than in food products from other countries. However, we seem to be reluctant to do this and are waiting for the European Union to move in order that there is concerted action. This would remove Ireland's inability to compete in the European market. The Minister also raised the issue, although he said it was the responsibility of the Department of Health. These are actions we could take and which would give us the ability to be more competitive. For example, the United States is composed of 50 states, each of which seems to have a great deal of freedom to compete and energise itself. The European Union, including Ireland, tends to be hampered by a system of centralised control. The United States seems to be able to work so much better and have become much more competitive. I would like us to follow some of its example.

Deputy Richard Bruton: They are big questions. Many energy resources, including nuclear power and renewables, raise significant public policy concerns which are shared by the general public, not just by policy makers. The Senator's comments are well made. If we want to diversify away from our dependence on fossil fuels, we must identify the sources of energy we intend to pursue and develop a strategy for delivering on that objective. We have seen that debate taking placing very intensively in recent months in respect of renewables. The building out of the network is necessary if we are to have interconnection and develop our renewables capacity. I do not dispute that there are public policy issues for the European Union to tackle. We need to balance the interests of industry and employment with other interests that are genuinely held by many people. We have a legal framework within which to do this. I share the Senator's view that we need to be able to move forward in areas in which we identify opportunities.

On the question of what is being talked about in the broad area of energy, the focus is on energy efficiency, new technologies and better monitoring and control of energy use. These are areas in which we can genuinely make gains. If we have a smart infrastructure, smart generation capacity, smart homes and smart industrial and commercial premises, there is the potential to achieve significant energy cost savings, irrespective of the primary energy source. Much of the emphasis is on that aspect at this time. There is also the issue of integrating markets in order that the European Union as a unit can be effective in harnessing competitive advantages.

In regard to digital marketing, a number of directives are at various stages of implementation. The directive on alternative dispute resolution in respect of online trading, for example, has gone through. There is a host of directives under negotiation on issues such as e-signatures and data protection, all of which are necessary to facilitate transactions across boundaries. There is also a monitoring aspect which allows one to look at where Ireland or any other member state stacks up in rolling out its infrastructure and in terms of its usage of the digital marketplace, the number of SMEs that have bought into it and so on. We are somewhere in the middle which, for a small open economy, is not good enough. Only 23% of Irish SMEs trade online, which is far too low for a country of our size. It is one of the issues we identified last year and we have developed several pilot projects to support businesses to get online. The local enterprise offices have been involved in that area. In addition, the Department of Communications, Energy and Natural Resources is working to design a competitive voucher scheme that will support successful applicants to develop their online strategy.

I am not an expert on food labelling, but Origin Green seems to be a very useful initiative which focuses on the notion of traceability from farm to fork. It is something I have seen in action on the Senator's supermarket shelves during the years. It is about offering assurance regarding how production is delivered all along the line, which is really the main selling tool for Irish food. The downside of the "made in Ireland" approach for a small trading economy is that one is likely to lose out when competing in markets where the preference is for products made in France, the United States and so on. The Origin Green initiative, on the other hand, is about the way in which the product is produced - grass-fed beef, for instance - and is, therefore, a much more robust tool. The issue of including information on fat and sugar content, etc. on labels is a public health issue, as opposed to a marketing consideration.

Deputy Seán Kyne: I welcome the Minister and his officials and offer them my best wishes for the forthcoming Competitiveness Council.

Senator Feargal Quinn touched on the issue of energy. It is remarkable to note that the energy price gap is so wide that gas is three times more expensive than electricity in Europe and twice as expensive as in the United States. The Senator referred to the increase in production in the United States, importation to Canada and so on, whereas we are largely reliant on certain somewhat unstable countries in the Middle East, notwithstanding the improved situation in Iran. When we talk about the Internal Market in energy, what exactly is anticipated and what will the impact be? The Minister has indicated that there is a concern about transportation from Europe to the United States. Will he expand on this?

In regard to the country-specific recommendations for the new semester, have we had initial communications on what is proposed? In its annual growth survey the Commission has confirmed five areas for reform, one of which is growth-friendly fiscal consolidation. What is envisaged under this heading? We all know the Government's view on corporation tax, namely, that there should be no change in the current arrangements. Is that issue likely to feature again in discussions at European level, including at the Competitiveness Council?

There was reference to the German practice in regard to apprenticeships. Are there other models in the European Union that are similar to the German model or, on the other hand, more similar to our own in a context of high levels of participation at third level? Some time back a delegation from one of the federal states in Germany came before the committee and put forward the view that this country's level of third level participation was too high and that we needed to do more in terms of other training and education models. Is there something we can learn from other European countries, apart from Germany, that might be helpful in this regard?

Deputy Anthony Lawlor: I welcome the Minister and wish him the best of luck at the Competitiveness Council. I understand negotiations are ongoing between the United States and the European Union on the proposed Transatlantic Trade and Investment Partnership, TTIP. Colleagues have outlined the concerns regarding Ireland's ability to compete, particularly in high energy sectors. The energy cost differential between the European Union and the United States, as outlined, certainly gives us a great deal to consider. Will the Minister comment on this, particularly in the context of the TTIP process?

Deputy Richard Bruton: The Internal Market in energy is essentially about delivering a free flow and a strengthening of infrastructure in order to provide better interconnection and enhance the ability to trade across boundaries. Where, for instance, electricity is cheapest in France or wind power is most plentiful in Ireland, it offers the benefit of the cheapest source across the network. This reduces the stand-by capacity required, a significant factor for a small market, particularly when one is using renewables. Where markets are integrated, there is no need to tie up so much capital in providing stand-by capacity. One can buy at the cheapest price and thereby manage the delivery of electricity more cheaply. That is chiefly what the Internal Market in energy offers.

On the country-specific recommendations, we will not have a communication until mid-year or thereabouts. The issues we are expected to identify will not be very dissimilar to those that were identified by the troika. They will relate to structural reform in key markets, training, legal services, etc. When they arise, it is fairly certain that they will be about structural reform. That is the key point.

The Deputy inquired about growth-friendly fiscal consolidation. This involves trying to restructure one's tax and spending in a way that is least harmful to jobs and growth. In the context of tax structures, the OECD recommends that property taxes are the best in the context of promoting growth while income taxes are the worst. It is a matter of the hierarchy of one's spending choices. On the expenditure side, it would involve investment in human capital and education, and research and development would be seen as something that should be prioritised. It would also be necessary to identify infrastructural investments that were important and that could be financed from within one's capital spend. That is what is involved.

The corporate tax rate is not an issue. Taxes are a member state competence and they would not arise in the context of country-specific recommendations. As the Deputy is aware, there are individual member states that might have a view on other countries' tax codes-----

Deputy Seán Kyne: Would the matter arise in the context of the debate on industrial competitiveness?

Deputy Richard Bruton: No.

Deputy Seán Kyne: So it will not be an issue.

Deputy Richard Bruton: No.

The Deputy inquired about other models. The huge growth in third level participation here probably puts us at one end of the spectrum. As the Deputy correctly stated, approximately half of the relevant cohort in Germany would take the apprenticeship route. However, there is a route back, and this underlines the strength of the German system. It is not the case that someone who takes the apprenticeship route in Germany cannot return to the academic track. The German authorities allow for transfers back. Austria is somewhat similar to Germany. Spain is trying to integrate some of the features of the German system into its own. We are trying to do likewise. The difficulty for us in this regard is that we need to develop new apprenticeships, draft new legislation and so on. In the short term, traineeships - which have very high placement rates - offer the sort of opportunities people require. I would like to see further developments in this area because possibly it is closer to where our industry stands at present. In the long term, we want to see those in industry committing to apprenticeships in order to develop the skills bases of their sectors. In the short term, traineeships could have relevance in Ireland because they are not as time-intensive as apprenticeships, they are not as costly from an employer point of view and the placement rates attaching to them are high. Perhaps there is an opportunity here for a two-phase strategy.

On the issue raised by Deputy Lawlor, it is not so much a question of competition, because the tariffs in high-energy-use sectors are not that high. It is much more of a relocation threat - in other words, the prospect that businesses will actually move to the US to avail of the advantage of low costs. That is the real threat, as opposed to existing business being undermined by the free trade agreement. The tariffs in those high-energy-use sectors are only 2% or 3%.

Deputy Anthony Lawlor: So the concern is that we will lose jobs to the US on the basis of the TTIP negotiations.

Deputy Richard Bruton: No, it has nothing to do with that. The TTIP negotiations make no difference. The concern is that businesses may move to lower-cost energy sources. TTIP has no relevance in that regard because it only changes tariffs. However, the tariffs in this case are extremely low. Reducing a tariff from 2% to 0% would be neither here nor there in terms of competition if it is possible to avail of energy prices elsewhere that are a half or one third of those that obtain here. It is not that TTIP could trigger any change in industry location; it is, rather, the sheer difference in prices. That is a concern in Europe and it is why there is a focus on how we might facilitate a renaissance of industry in Europe and on identifying the sources of competitive advantage we can develop around technology, skills, niche sectors and the application of key enabling technologies. That is where the debate lies in Europe. TTIP is not really a significant new source of vulnerability for high-energy-using manufacturing industries in Europe.

Senator Deirdre Clune: I also wanted to ask the Minister about the energy aspect. Obviously, there is a great deal of interest in that matter among members. Will the Minister indicate how this matter will be approached at the Council meeting? Will it be the subject of informal discussions beforehand? Has it been discussed previously? This issue seems to present a challenge for Europe, particularly in the context of international energy costs. Will the Minister outline what he intends to say at the meeting in respect of funding for SMEs and access to finance? How does he believe we can move forward in that area?

Deputy Michael Conaghan: The Minister referred to some of the discussions taking place in Europe in respect of a new era of industrial activity in Europe, manufacturing and a new industrial revolution. Such talk strikes one as odd because our economies have become fixated on activity in areas at the opposite end of the spectrum. I refer to the focus there has been on information technology, etc. References to manufacturing and a new industrial revolution jar somewhat in the context of the trend to which we have become accustomed. Is the Minister of the view that our economy has become very lopsided in the context of its over-dependence on information technology and all the skills and activities associated therewith? If we were to heed the calls with regard to a new era of manufacturing and a return to making things - the bedrock of economic activity from the earliest times - how would we be positioned? Is Ireland well placed to make a mark in such a new era of manufacturing?

Deputy Áine Collins: I welcome the Minister and his officials. I am delighted to hear that food labelling is on the agenda for the forthcoming meeting. I understand that sugar is the main issue in this regard, particularly with regard to the number of ways its presence can be disguised in food through labelling. Sugar is linked to obesity, especially in children. I do not know what is the nature of our contribution in respect of this matter. However, if we can ensure that from a European perspective it is identified as just what it is - namely, sugar - then people will know how much of it is contained in the foods they are eating.

Senator Clune referred to finance and SMEs. There is a need to try to obtain funding in order to encourage entrepreneurs to set up operations. I welcome the recent report from Mr. Sean O'Sullivan on this matter. We discussed this matter during our recent visit to Brussels. There is a need for new and innovative ways of obtaining finance. There appears to be a challenge for all of us in this regard. I would welcome the Minister's views on that matter.

In recent times I have been talking a great deal about commercialising research. I sent a report to the Minister on the matter and I am aware that he wants to discuss it with me. We face a major challenge in establishing how we might commercialise all of our research. A huge opportunity exists in this regard because Ireland is one of the countries that is best suited to facilitating collaborations between big and small industries and bringing innovation to reality as a result. This is an issue to which we must give consideration. As I have stated previously, Ireland is the only country in the OECD that does not facilitate research technology organisations. Under the OECD model, money can be drawn down by organisations that are not institutions of education. A major barrier exists in this regard and it must be addressed.

I propose that we encourage the development of a mentoring system across Europe. If such a system were established, then businesses here trying to expand their operations into Europe could do so through what are called "closed networks". Mentors from all over Europe would be connected together by means of such networks. We are all in the Single Market and it would be useful if we could talk more and communicate with each other at ground level. The technology exists to support that.

I welcome the discussion on apprenticeships. This is an area we have to develop. While apprenticeships need to be developed in many sectors, they need to be quickly developed in the service industry. We used to be a leader in that sector for many years and then all our young people went to college and we forgot about the importance to our economy of the service industry, which is very closely linked to tourism. I acknowledge that it is not a sector that comes directly under the Minister's remit, but this aspect should be borne in mind when are talking about European issues. The tourism sector is one in which we could quickly develop apprenticeships.

Vice Chairman: I will take one brief supplementary from Deputy Tóibín and a response from the Minister, and then we will conclude.

Deputy Peadar Tóibín: The issue I wish to raise does not relate exactly to the subject of this presentation. I refer to the idea of increasing our proportion of manufacturing. One of the major threats to manufacturing is the fact that so much money is being funnelled towards assets, whether such assets be properties in south Dublin or assets on a stock exchange elsewhere. It is with those assets that we are competing for the location of funds. As central banks make more funds available, unfortunately, most of those funds are bypassing manufacturing - that is, the production of goods, which creates jobs and is productive in the long run - and going into assets. I ask if increasing that proportion could be part of the Minister's thinking into the future.

Deputy Richard Bruton: Senator Clune asked how the energy aspect would be approached at the Council meeting. The answer is that it could be approached in 28 different ways.

Senator Deirdre Clune: It is intriguing as to how the challenge will be dealt with at the

Council meeting.

Deputy Richard Bruton: Yes. Everyone who attends the Council meeting tends to view it from his or her own perspective. We would see the need for greater interconnection and the need for us, as an isolated energy player, to get more integrated, diversified energy sources. The approach taken is probably different for different countries. A new 2030 energy climate framework has just been published by the EU. That would probably be a backdrop to the discussion. It is probably fair to say that Ireland is still absorbing what has been set out, and I believe the European Parliament will comment on it. There are binding targets up to 2020, one being that 20% of energy is to be produced from renewable resources. It is now setting the targets for the next period, which include a 40% reduction in carbon emissions up to 2030 and that 27% of energy be produced from renewables. That will be a topic of debate, but I cannot say how the debate will go. We are still assessing that. We are very much dependent on other countries as to how they adopt these targets. Much of the interest in Ireland being a centre for the export of renewables is entirely dependent on what the UK might do. The debate on this will probably not reach many conclusions. The reports point to areas in which there is potential for efficiencies, better integration, better use of conservation methods and better examination of the transmission and distribution networks. They point to things we could be doing and they will probably arise in the debate.

Deputy Conaghan asked if the discussion about manufacturing jars with the new trends. It does not really, because with smarter, more intelligent mechanisation, Europe is becoming competitive again. We have more customised production that is closer to identifying what the customer needs and meeting it exactly in smaller runs, and that is where Europe feels it is getting back into the game. The application of ICT and smart infrastructure to the manufacturing process is where we are getting back in the game, but having the right conditions for that to emerge is crucial. I do not think our economy is lopsided. It is true that manufacturing has lost 20% to 25% of its employment base in the past ten or 15 years in Ireland and elsewhere generally. We have taken a big hit in our manufacturing base and we have expanded the services sector generally. This will be the first year that our service exports exceed our goods exports, which is hard to believe. We are unique in Europe in that sense. We have adapted well to the services opportunities and many of our exports are in business services. We are not lopsided in that sense in that we are ahead of the curve. There has been more rapid growth in trade in the sectors the Deputy mentioned and we have done well in them. It would be foolish to forget about manufacturing. As to how are we are fixed in terms of manufacturing, we have some strong sectors, food being one of them, which is on the verge of a very strong resurgence. We are very well fixed in some sectors. We continue to be very competitive in the pharmaceutical sector. As the patent cliff has hit some products, we have successfully moved in the bio-pharmaceutical sector and we are diversifying and staying relatively ahead of the curve. Our employment in the overall pharmaceutical sector is steady despite the convulsions that are happening within the sector. We are pretty well placed.

Where Europe can be competitive is in niches in the value chain, as opposed to the whole process. Companies are increasingly looking at a global supply chain. Parts of it can be done in one country with a competitive edge, and that is the way we are seeing this develop. There are some sectors we could not support and in which we could no longer be competitive but there are other areas of manufacturing in which we can be. That is where we can fit in. We published a document on manufacturing last year, the recommendations of which we will start to implement this year. This involves getting companies to look at where they can build their competitive opportunity.

On the Deputy Collins's point on food labelling, I know the Italians are worried about a voluntary system where there may be multiple ways of presenting contents, which could represent an indirect barrier to competition. It is not so much the principle of it; the concern is about barriers to trade as opposed to why there is labelling of the sugar content in the first place. That is the issue that will be raised in this context.

The Deputy made a fair point in highlighting that all our research spending is channelled through the higher education institutions, and she also raised this issue during the debate on the Estimates. To be fair, we require 30% funding for any of the significant budgets. They have to be able to open up to industry, but there is no doubt that there are some exemplars of good practice. Many people look to Germany, whose models are more diverse. It has technology centres that have nothing to do with institutes of higher education. We certainly need to be open to those opportunities. We are learning in this sphere. We are trying to make sure our spend, which is small in international terms, is effective. We are rated as having a good bang for our buck. We are feeling our way to make sure we spend money most effectively. It is an area that is certainly worth examining in terms of how can we open up that possibility

Tommy Murray has told me there is an Erasmus for entrepreneurships. That does not quite fit in with the Deputy's suggestion of a trans-European mentoring network. That is the sort of thing that Commissioner Tajani is very keen on and he is very much pushing the idea that there ought to be European networks for trade missions. It is something we can certainly pursue with the Commission.

The Deputy raised the issue of services. I fully agree with her that the services sector - as was the case some years ago and as we see in other countries - is one that offers very solid employment with a career structure, but that is not the case in Ireland. There must be a way of reinventing career structures in some of these service areas.

Deputy Tóibín asked whether returns on manufacturing are sufficiently high to attract capital. Capital is attracted by asset plays. This has certainly been the case here, where some of the decline in our manufacturing and exports can be traced to the high speculative gains that were available in other plays. I refer to areas in which people could invest money and make shorter and more speculative gains. That is a genuine issue, which brings us back to the question of how one secures access to capital for sectors that offer a long-term and sustainable competitive edge. I do not disagree with the Deputy in that regard. What we are trying to do is to place new sources of capital in the marketplace through the National Pensions Reserve Fund, Enterprise Ireland and so forth. We have yet to see the impact of these measures. The only response we can have to this issue is to create access to capital for long-term, sustainable enterprises and enable more small companies to raise capital from capital markets. This is currently very limited in our case. I acknowledge that I have not given a full answer.

Vice Chairman: I thank the Minister and his officials for their attendance.

The joint committee adjourned at 2.50 p.m. until 1.30 p.m. on Tuesday, 25 February 2014.