



**CHAMBERS
IRELAND**
IN BUSINESS FOR BUSINESS

**Chambers Ireland Submission to the
Oireachtas Committee on Jobs
Enterprise and Innovation**

Cost of Doing Business

August 2017

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of Irish businesses and represent their views. Chambers Ireland welcomes the opportunity to contribute to the work of the Oireachtas Joint Committee on Jobs, Enterprise and Innovation concerning the costs of doing business in Ireland.

As a small open economy that is dependent on exports and foreign investment, the relative cost competitiveness of our economy is a significant determining factor of our overall competitive edge. Although the Irish economy has improved significantly in this respect since the economic crash, we remain exposed to global instability, moves towards increased protectionism in terms of trade and investment, and continuing sluggish growth in other global markets. The UK's departure from the EU and the likely instability that will bring will present enormous challenges for the Irish economy in the years to come. Therefore, ensuring that our cost base remains competitive is one of the central concerns of the Irish business community.

In identifying the factors that contribute to the costs of doing business, we followed a similar line of thinking as identified by the National Competitiveness Council in its report [“Cost of Doing Business in Ireland 2017”](#), where costs are largely broken down within categories like labour, transport, utilities, business services and access to finance. Chambers were asked to prioritise what they saw to be most significant costs of doing business for their members' businesses in the short to medium term. While there was some consistency in feedback regarding the main costs of doing business, our members also noted that businesses of different sizes and different sectors do not have unified concerns when it comes to their largest costs. Therefore prioritising in a general sense is not a simple task. However, some trends did emerge with labour costs being identified as the biggest cost of doing business in Ireland. However, some trends did emerge with labour costs being identified as the biggest cost of doing business in Ireland

Labour Costs

The National Competitiveness Council has identified labour costs (which include wages and salaries, employer paid statutory plans, and other employee benefits) as the largest cost factor for businesses in Ireland.¹ Their report notes that upward labour cost pressures are evident across the economy and across sectors. In Ireland, the hourly labour cost was €30.4 in 2016, compared to €26.7 in the UK

¹ <http://www.competitiveness.ie/News-Events/2017/NCC-Costs-of-Doing-Business-2017-Report.pdf>

and €29.8 for the Euro area 19.² While labour cost growth has been positive in Ireland, the growth has been below EU and Euro area averages in the 5 year period to 2016, representing a competitiveness gain for Ireland. However, the trend masks considerable divergence at sectoral level particularly in both the ICT and Wholesale & Retail sectors where growth has outpaced average Euro area increases.³ Therefore, it is imperative that Government ensures wage growth is sustainable so the economy avoids a scenario where wage growth outpaces productivity growth and doesn't outpace similar growth in competitor countries.⁴ This has been echoed by our member chambers, particularly those Chambers where the retail and hospitality is well represented in their membership. Earlier this year in our submission to the Low Pay Commission on the minimum wage, we expressed the view that any further increase to the national minimum wage would be extremely detrimental to Ireland's competitiveness. The Irish economy currently faces unprecedented economic uncertainty arising from the Brexit referendum result and a new US administration and therefore Government must do everything possible to enhance our competitiveness so that we can continue to compete on the international stage. The Low Pay Commission made the recommendation earlier this summer to increase the minimum wage by 30% to €9.55 an hour. At a time of economic uncertainty, these additional labour costs will place an added cost burden on employers and contribute to growing wage demands.

Furthermore, our members have also noted that the high cost of living remains a significant issue in Ireland which affects not only individuals but also employers. The impact of the housing crisis on rental costs and house prices, along with significantly high childcare costs greatly influence the cost of living in Ireland, and feed directly into increased wage demands. The high cost of living places pressure on those living and working in Ireland and adversely impacts employers seeking skilled workers from abroad. The high cost of living should be tackled by Government and must not be passed down to employers to deal with.

Labour costs also encompass tax paid to Government as well as the basic wage paid by employers to employees. Feedback from our member chamber identified reducing the high rates of personal income taxes has as essential to make work pay for all workers. The taxation of work in Ireland is marked by a narrow base and high effective tax rates by international standards. This is a serious threat to Ireland's overall competitiveness and in particular negatively affects our ability to compete with the UK in the attraction and retention of skilled workers. Ireland's marginal tax rate is high relative to the UK, where the top marginal rate applies at 4.2 times the average industrial wage,

² Ibid

³ <http://www.competitiveness.ie/News-Events/2017/NCC-Costs-of-Doing-Business-2017-Report.pdf>

⁴ <http://www.competitiveness.ie/News-Events/2017/Bulletin-on-CoDB-2017-Web.pdf>

while in Ireland the highest rate of income tax starts to apply at just below the average industrial wage. It should also be noted that the effective marginal tax rate for high earning self-employed people is 55%. It is the view of Chambers Ireland that Government must commit to reviewing our income tax model in the medium term, particularly the point of entry for the higher rate of tax. We see this as being of particular importance to our members, as tax reform in this regard may limit wage pressure while also improving our competitiveness as an economy.

Transport

The NCC Bulletin on Cost Competitiveness identifies transport as significant cost for businesses, where the cost of motor fuel (which to a large degree is made up of a variety of taxes) is a notable cost for business. The impact of these taxes is becoming more evident as the international price of oil increases. The recent sharp rise in international oil prices has been a contributing factor. For example, Irish petrol and diesel prices increased by 14.8% and 22% respectively in the 12 month period to February 2017.⁵

Alongside the cost of fuel, underinvestment in road networks and ports adds costs to business, through increased congestion and reducing efficiencies. Greater investment in transport networks and hubs will be even more important in the context of potential changes to the trading relationship between the EU and the UK, as pressure on Irish ports, airports and roads will likely increase as a result of additional administrative burdens in the trading of goods. Brexit also underscores the importance of Ireland's logistics and transport sectors cost competitiveness. The UK is the destination for 50 per cent of all maritime goods exports and 88.4 per cent of roll on/roll-off freight traffic. Of the total amount of goods received at Irish ports in 2015, a third arrived from the UK.⁶ The implications of extra administrative costs and tariffs, standards and regulations and customs on the transport of goods between Ireland and the UK could negatively impact on indigenous exporters' supply chains, and their capacity to competitively price products, not only in the UK but domestically and in other international markets. Strategic and well-planned investment in Ireland's transport network has the potential to significantly contribute to Ireland's competitiveness and economic wellbeing. Enhanced road transport and connectivity is vitally important for all industry sectors and for all areas of the country.

⁵ <http://www.competitiveness.ie/News-Events/2017/Bulletin-on-CoDB-2017-Web.pdf>

⁶ <http://www.competitiveness.ie/News-Events/2017/NCC-Costs-of-Doing-Business-2017-Report.pdf>

Insurance Costs

Increasing insurance costs in recent years have been flagged as a significant concern for Irish business. Insurance has always been a significant cost facing both businesses and consumers, however recent increases in motor insurance and public and employee liability have posed new challenges and impacted the cost of doing business. Statistics for insurance costs on the SME sector or for businesses are not available but the NCC Cost of Doing Business Report 2017 highlighted that the rate of inflation for insurance is well above the aggregate Consumer Price Index rate. The Report cites that motor insurance has increased by 50% in the period 2014-2016.

It was identified particularly in relation to Public and Employee liability that the awards being given out for minor injuries is far too high and leading to excessive numbers of false and exaggerated claims. This is a growing concern for many businesses that require such insurance cover and with some finding that it is becoming a prohibitive cost. We welcome that Government is undertaking a review in this area as escalating costs not only damage competitiveness but also risk the viability of some small businesses.

Utilities

Our member chambers also highlighted the cost of utilities (encompassing the cost of electricity, heat, water and broadband) as being a significant cost for business. The CSO notes that utility costs can represent 1 to 7 per cent of location-sensitive costs⁷

Further, in the NCC Cost of Doing Business Report 2017, it notes that although the differential average price for electricity between Ireland and the UK has gone from a point where we are almost 12 per cent more expensive in 2012 to a situation where in the first half of 2016 electricity prices are 6 per cent cheaper in Ireland, our member chambers continue to tell us that meeting the costs of energy can be expensive for their members. Further, while Ireland is relatively cost competitive for telecommunications, especially for business mobile broadband, concerns persist around the issues of quality and the regional availability of high speed services.

Access to Finance

⁷ The CSO's Census of Industrial Production shows that energy costs for Irish enterprise, including SME's, represents 1.57% of total costs.

The cost of credit and the costs of accessing finance in Ireland is a challenge for many businesses, particularly SMEs. With the 4th highest SME interest rates in the Euro area,⁸ the cost of servicing loans can be particularly high for small business.

Other challenges involve the cost associated with the considerable length of time it takes to apply for credit in Ireland. Businesses have indicated that sometime slow response times from lenders can result in disproportionately high time cost when applying for finance. . Another complication identified by business in accessing finance from the main banks is the difficulty in securing access to purchase a facility without providing a personal guarantee even with high level of contribution to purchase and with funding from the SBCI.

We commend the effort that Government has made to improve access to finance for small business with new targeted support available through the Strategic Banking Corporation of Ireland (SBCI) administering the SME credit guarantee scheme. Microfinance Ireland (MFI) and the Credit Review Office have improved the credit environment for small businesses. However, the potential impact of Brexit will pose new challenges for Irish business. We ask Government to introduce an Export Working Capital Scheme to target and support SME exporters which require additional trade finance or working capital to process new orders or service new clients.

Property

The last number of years has witnessed a sustained recovery and upward price pressure in the Irish commercial property market. However, concerns persist about the availability of commercial property which is a key requirement for start-ups, attracting investment and the expansion of enterprises. Despite an increase in construction activity and planning permissions residential property supply also remains constrained. Continued strong demand means property price inflation is likely to continue in the short term without additional supply becoming available.⁹ The increasing costs associated with renting property contribute not only to wage demands, but also to the direct costs of businesses that are facing higher rent for commercial property. Local authority rates have also been identified as a cost for businesses.

The lack of supply of housing greatly threatens Ireland's competitiveness and future economic growth. The housing crisis is having a significant impact on Irish business through increased cost of

⁸ NCC Cost of Doing Business in Ireland 2017 Report, p48

⁹ <http://www.competitiveness.ie/News-Events/2017/Bulletin-on-CoDB-2017-Web.pdf>

living affecting wage pressures, businesses' ability to attract talented workers and high rental costs for companies located in urban areas. The insufficient supply and high cost of housing are major issues which challenge Ireland's competitiveness as we face into an uncertain and difficult period of negotiations on Brexit.

Regulation

As part of our consultation with our network of chambers, several submissions also reflected on the costs of meeting the requirements of new regulation. While new legislation and regulation may be required to bring about a legitimate policy objective, our member chambers have highlighted that new regulation also comes with administrative costs that must be met by businesses. For example, they have noted that new laws on data protection introduced by the EU (General Data Protection Regulation) also bring hidden costs for businesses that must ensure their employees are trained. Further, our member chambers have also highlighted that the UK's exit from the EU may also bring about new costs for business through additional administrative burden in trade documentation, training staff in new trade procedures and reduced inefficiencies.