



**Chambers  
Ireland**  
Advancing business together



# Chambers Ireland Inputs to the National Reform Programme 2022 and the European Semester Process

February 2022

Chambers Ireland, the voice of business throughout Ireland, is an all-island organisation with a unique geographical reach. Our 40 members are the Chambers of Commerce in the cities and towns throughout the country – active in every constituency. Each of our member Chambers is central to their local business community and all seek to promote thriving local economies that can support sustainable cities and communities.

In September 2019, our Network pledged to advocate for and support the advancement of the Sustainable Development Goals. In doing so, we use the Goals as a framework to identify policy priorities and communicate our recommendations, and we have a particular focus on five of the goals encompassing decent work and economic growth

(SDG 8), sustainable cities and communities (SDG 11), advancements in gender equality (SDG 5), viable industries, innovation, and infrastructure (SDG 9) and progress in climate action (SDG 13).<sup>1</sup> We use these Goals as a lens for interpreting and prioritising our policy proposals.

## **General Overview of Government Response to the 2020 Country**

### **Specific Recommendations for Ireland**

The most recent Country Specific Recommendations for Ireland were strongly focused on guiding our country through the Covid Crisis. In this respect successive governments have performed extremely well. Given the robustness of our economy overall, Ireland is in a very strong position relative to our peer nations. Certain sectors, such as tourism, entertainment, and the arts, have been particularly badly impacted by Covid-19. Despite the fact that these sectors may continue to have difficulties into the medium term, and that the impact on these sectors will have pronounced regional effects, many countries fared worse than Ireland, and few are in as strong a position to benefit from a post-covid rebound. This is especially striking in the context of the disruption that has been caused to supply changes and distribution networks by Brexit.

### **On Housing and Infrastructure**

Government have expanded their ambition for the National Development Plan in line with the revised Climate Action Plan. The adapted National Development Plan has incorporated significant changes to it to respond to the increased pace of decarbonisation that is required in light of tighter 2030 limits on greenhouse gas emissions. These amendments to the National Development Plan are in line with Chambers Ireland's submission to the "Review to Renew" consultation<sup>2</sup>, and our network commends Government for their willingness to engage. The enactment of legislation that will support an offshore renewable energy planning regime is

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<sup>1</sup> The Chambers Ireland SDGs. Available at: <https://www.chambers.ie/policy/sustainable-development-goals/chambers-ireland-sdgs/>

<sup>2</sup> Chambers Ireland Submission on the National Development Plan Review to Renew Consultation | February 2021 <https://www.chambers.ie/wp-content/uploads/2021/02/Chambers-Irelands-Submission-on-the-Review-to-Renew-Consultation-on-the-National-Development-Plan-FINAL.pdf>

particularly welcome, though significant progress will be needed if we are to ensure that the full potential of our national renewable energy resources can be reached.<sup>3</sup>

Within the National Development Plan elements such as public transport networks have received greater emphasis. Chambers Ireland also welcomed news that water supply and treatment is to be better resourced – this is an area which needs significant support, not only to catch up on past underinvestment, but also because adequate water resources act as a bottleneck in the creation of new housing, an area where Ireland has been especially weak over repeated cycles of the European Semesterisation process. The expansion in the capacity of our water treatment, distribution and wastewater management systems has become even more critical given that the Government has launched a much more progressive policy on housing, Housing for All. This programme aims to have in excess of 300,000 housing units completed within the next ten years: an increase of circa 15%. Concerns exist about the practicalities of delivering such an increased number of dwellings at affordable prices. A large proportion of these will need to be built in urban areas if they are to be coherent with the Climate Action Plan, the National Planning Framework, and our CO2 emission targets, however construction costs are significant in Ireland and urban/brownfield/dense housing is typically even more expensive than other forms. Current estimates suggest that the capital required to build at the level that Housing for All requires will need to double. It is difficult to see how a sufficient number of projects can become viable (within the definition applied by financing bodies) within this time period allowed. Given the demands that will be placed on the construction sector between the private investment demand and the public investment demand, including the National Development Plan and Housing for All, it is very likely that costs of construction will continue to escalate. Ceteris paribus, this means that fewer of the proposed housing projects are likely to be commercially viable.

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<sup>3</sup> Chambers Ireland white paper on maximising the benefit of developing the national wind energy industry and the national grid | December 2020  
<https://www.chambers.ie/wp-content/uploads/2021/01/Chambers-Ireland-white-paper-on-maximising-the-benefit-of-developing-the-national-wind-energy-industry-and-the-national-grid.pdf>

## **On Skills and the Labour Market**

The expansion in the capacity and range of courses that are on offer to both those that are in employment and those that are not, through services such as Solas, Springboard, and Skillnet are all welcome and will hopefully continue into the future. The shift to remote working has resulting in a very welcome increase in female labour market participation and it is hoped that this will continue beyond the pandemic. Retaining the skills of women who have been excluded from the workforce will be an important source of economy growth into the future. However no process is entirely positive, remote working is causing a decline in economic activity in some urban areas (though this seems to be moderating as a result of the reopening of the economy), it is also causing the housing problems in our urban areas to be transmitted to regional areas – as those that were working in urban areas now have the option to work remotely but change their residence to somewhere cheaper, driving up housing costs in their new location – whereas for regional workers, they can benefit from the labour mobility associated with remote working because their labour is now far more mobile than it had been previously. As a result, current employers in regional areas are having to compete with urban firms for talent where the roles involved can be carried out entirely remotely. This is likely to have a significant effect on the digitalisation agenda where regional based firms will be challenged to compete with urban firms for roles that involve nonphysical activities including administration, bookkeeping, accounts coding, data, analysis etc.

## **On Business Supports**

Throughout the pandemic, Government was quick to implement policies that supported businesses and employment that were suffering as a result of liquidity crises that were caused by the necessary public health restrictions. Considerable resources were successfully directed at SMEs and Microbusinesses to help them introduce online activities into their core business. A business representative organisation such as Chamber Ireland must applaud Government when it treats our members so

generously, but it cannot be emphasised strongly enough that they present strength in our economy is directly attributable to the Government's efforts to support businesses during the pandemic. Through our activities in international organisations like Eurochambres and the International Chambers of Commers we have seen how heterogenous Government responses have been at the State level, and what the impact of these policy differences have been. We know how profoundly the withdrawal of Government has affected local and national economies when it has been mistimed. Our members suggest that of the firms that struggled with their financials as a result of the pandemic, as few as 10% of them are likely to go under as Governmental supports recede. Had such supports not been on offer, or had they been withdrawn too early, significant economic scarring would have occurred. Instead, the economy has been revitalised and individuals that may have fallen out of the workforce or have suffered the skills-atrophy associated with long-term unemployment have been able to maintain their abilities, or retrain, or move to more appropriate roles, or all of the above.

## **On Taxation**

Our tax receipts have expanded considerably over the course of the pandemic which has greatly strengthened the Government's freedom of action in the coming years and is to be welcomed. Our decision to align with the OECDs framework for international tax reform gives certainty to businesses and was broadly welcomed and is coherent with our Network's views<sup>4</sup>. However, the concentration of Corporation Tax receipts in a small number of very large multinational corporates ultimately undermines the robustness of our national economy. The increase in Income Tax receipts is another area of weakness, because of the extremely progressive nature of Irish income taxes, this means that a small proportion of the population account for the majority of income taxes. In the event of an economic downturn, particularly one that affects core FDI sectors such as Pharma, ICT and Medtech, it is likely that we will see a correlated downturn in both Income Taxes and Corporation Taxes at a point when there will be

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<sup>4</sup>Chambers Ireland Submission on the OECD International Tax Proposals | September 2021 <https://www.chambers.ie/wp-content/uploads/2021/09/Chambers-Ireland-OECD-International-Tax-Proposals.pdf>

significant demands placed on the Exchequer. Our economy needs to diversify its activities if it is to address such a vulnerability.

This dependency on Corporation Tax and Income Tax is likely to expand over coming years as a direct result of decarbonisation. Approximately 8% of government revenue is derived from Excise Duty, Motor Tax, Carbon Tax, Vehicle Registration Tax, and associated Value Added Tax that is derived from the use of internal combustion engine vehicles. Should they be phased out over the coming decade this will narrow the tax base further, it is not yet clear how such a revenue gap will be made up. This will also have a great effect on Local Government fund which is the main beneficiary of Motor Tax. The failure to expand Local Property Tax as a revenue generation mechanism for local government is another weakness. As a result of our local government budgeting process, our members are forced to subsidise weaknesses in local government funding through commercial rates. The levels of Commercial Rates which our members experience are a consequence of local governments setting budgets separate to the decisions they make to raise revenue. The persistent decoupling of local government expenditure from the setting of Local Property Taxes and Commercial Rates continues to undermine Local Governments and their activities.

## **Challenges and Developments**

Throughout the business community, there are concerns regarding the costs of doing business. Some of these are Geopolitical (increased energy costs), some of these are as a direct result of trade disruption caused by Covid-19, and some are secular in nature, such as labour supply.

### **Energy Concerns**

Energy in Ireland is relatively expensive and unless there is a significant change in how we source our energy that is likely to remain the case, particularly if geopolitical concerns continue to amplify the volatility in pricing. Our Network has concerns that while there are earnest targets associated with introducing renewable energy to our

All-Island electricity network, inadequate regulation and planning procedures coupled with a lack of grid capacity may prevent us achieving those aims. Furthermore, novel technologies such as Green Hydrogen and Green Ammonia are coming closer to market. These technologies will play a significant role in helping Ireland and the EU decarbonise. It is vital for both Climate Action and our economy that no part of the regulatory apparatus of the state prevents the development of these industries (in the same way as the lack of a planning regulatory regime has prevented the development of an offshore renewable energy industry to date). Should we progress an agenda where we can capture the maximum amount of renewable energy available to us, we will have far more electricity than we need to meet our demands. By coupling that with a long-term energy storage solution (such as hydrogen) this will allow Ireland to become net energy exporters and so facilitate the decarbonisation of continental European states. The current trajectory of policy suggests that we may fall short of our potential.

### **Competitiveness Concerns**

Businesses, both those operating in the domestic economy and also those in the trading economy, are experiencing a significant burden as a result of the increased inventory costs. This is being caused by the shortening of supply chains as they seek suppliers which are closer to their bases of operation. These costs are arising as a result of maintaining higher levels of stock, and also in the direct and indirect increase in costs associated with diversifying suppliers of inputs to their businesses. Volatility in supply is driving both of these processes which are likely to be persistent.

Consideration of factors other than price will inevitably reduce productivity in both the trading and non-trading sectors. As we know from work conducted by the OECD<sup>5</sup> the most effective way for Irish firms, and particularly SMEs, to improve their productivity is to enter into the value chains of internationally trading firms. More needs to be done to breakdown the Chinese wall between domestic firms and MNC firms which are based in Ireland. Furthermore, supports for businesses that seek to

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<sup>5</sup>Developing innovation capabilities: <https://www.oecd-ilibrary.org/sites/66472c4f-en/index.html?itemId=/content/component/66472c4f-en#boxsection-d1e26322>

trade should be extended to firms other than high-potential start-ups if we are to make progress at improving the productivity of our domestic, non-trading, SME sector.

With considerable private sector growth projected into the medium term, and with a significant reallocation of the workforce to more productive sectors having occurred during the Covid pandemic, and with an enormous level of state investment planned (between the National Development Plan and the Housing for All strategy) it is likely that Irelands labour force supply will tighten in the coming years and so labour costs will increase over the 2020s. This is likely to lead to increased migration from other EU states which will put further strain on the housing market, particularly in the rental sector.

### **Covid as an accelerator of existing trends**

Our network has the sense that the covid pandemic did not change things in our economy so much as it accelerated trends that were already occurring. Issues around housing have typically disimproved while the actions that are needed to remedy them have been delayed. Social inequality problems will have been amplified as a result of the skew between those that have been able to maintain their earning and those that were most likely to have been laid off during the pandemic i.e. individuals that were able to move to work which could be carried out remotely were able to protect their incomes – and in many cases were able to increase their incomes, while those in waged labour had fewer options and significant periods of underemployment. For children in schooling their ability to engage with digital educational resources will have been largely dependent on the economic resources of their parents. For children that ought to have been pre-school, those that would have gained the greatest benefit from it, the children from disadvantaged backgrounds, are going to be entering the formal school setting without having the benefit of that educational foundation.

In the housing sector, prices rose throughout the pandemic and are now rising at a rate which is higher than prior to the pandemic, this can only further entrench inequalities and social barriers. We are unlikely to see a significant impact from the Housing for All programme for at least five years and so have at least five more years of the situation disimproving ahead of us.

The domestic banking sector are seeing two of more banks exit the market which will reduces the availability of banking services across personal banking and SMEs, this combined with the economic shocks of Covid and Brexit make it harder for SMEs to demonstrate the essential robustness of their business plans when they engage with credit institutions. Increased economic volatility is likely to result in investment scarring where firms defer necessary investments in their business as a result of their concerns about yet another series of lockdowns, meanwhile other SMEs may be seeking investment but are unable to demonstrate the viability of their businesses to credit institutions.

The delay in Climate Action arising out of Covid-19 means that we are under greater pressure to ensure that our National Development Plan is delivered on time but within a shorter timeframe. This constraint is likely to increase the costs of delivering these projects. Unfortunately, because of the lack of prioritisation within the National Development Plan it is hard to know what will be delivered within that timeframe and whether these projects will be queued in line with their effectiveness, their deliverability, or some other criterium. With so many of these project decisions being deferred to the planning system this confers onto the courts the responsibility to select which projects are to be completed, effectively turning the political decision of prioritisation into an administrative/legal one. This has traditionally been a useful strategy (c.f. moving the location of the children's hospital) when it comes to deferring the costs associated with building infrastructure. It remains to be seen how the political/economic/sustainability necessities of delivering National Development Plan projects which catalyse the decarbonisation of our society, and our economy, will

compete with the financial/administrative/legal-capacity constraints that State institutions operate under.

## **The Sustainable Development Goals**

The five Sustainable Development Goals<sup>6</sup> that are most relevant to our Network's members are:

Sustainable Cities and Communities (Goal 11)

Climate Action (Goal 13)

Gender Equality (Goal 5)

Decent Work and Economic Growth (Goal 8)

Industry, Innovation and Infrastructure (Goal 9)

It would be unfair to consider the Government's accomplishments over the last two years with the counterfactual of where we would be had the Covid Pandemic not occurred, and yet it is difficult not to do so. While the aim is that the Sustainable Development Goals are to be accomplished by 2030 it is difficult to see how any of them could have been addressed in the ten years to 2030, and so it is harder to see them being attained within eight years.

Chambers Ireland's baseline assessment is that Ireland is unlikely to accomplish the Sustainable Cities and Communities Goal, the Climate Action Goal, nor the Industry, Innovation and Infrastructure Goal. However, our view is that Ireland is, all things being equal, likely to accomplish the aims of the Decent Work and Economic Growth Goal and the Gender Equality Goal.

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<sup>6</sup> we do not order them in terms of priority

While the focus of Government has rightfully been directed towards the immediate pressures that arose from the Covid Pandemic the consequence is that many decisions were deferred. Every decision deferred makes it less likely that a related Goal will be attained.

The strength that our Network sees in the Sustainable Development Goals is that they help us understand the linkages between policy alternatives, and see how actions can build on each other, and reinforce each other. There isn't a similar view of these goals at the level of public administration. Given that they are a tool for de-siloing thinking, there is considerable institutional resistance to incorporating them into the actions of Government Departments and Agencies. A case in point is the distance that existed between the "Town Centre First" initiative, and "Housing for All" while the "Town Centre First" concept is strongly supported within the "National Development Plan", it is only referenced twice in "Housing for All", despite the need for urban development which is at the core of the "National Development Plan", and regardless of the fact that what everyone means when they talk about "Town Centre First" is that people should be living there, in the hypothetical "flat above the shop". This disarticulation of essentially integrated processes ensures that where synergies between processes occur, it is largely a matter of chance.

The funding which is being provided for town centre living is a concern, it is not sufficient to make significant differences to our town centres. Unless our town centres become attractive places to live and work, Ireland will not make significant gains on Climate Action goals.

Building Sustainable Cities and Communities is a Climate Action, but it is also one that is founded in Industry, Innovation and Infrastructure. The reason why Chamber Ireland cares about housing is because the existing housing crisis hurts our members by hurting their staff. It is increasingly difficult to find staff that are willing to move to Ireland from abroad, meanwhile the staff that are here are either in a yearly

productivity-crushing cycle of increasing rents and changing homes, or they are emigrating.

Government policies such as “Housing for All” may in 5+ years begin to improve this situation, investments that arise from the “National Development Plan” may deliver on Climate Action and Industry, Innovation, and Infrastructure, but we are very far from realising those gains and it is hard to see how we are closer to those goals than we were two years ago.

Our attainment of Climate Action is reliant on decarbonisation and while we have made significant gains there (through the publishing of the Climate Action Plan in 2019, and its revision in 2021) our success here is entirely reliant on the decarbonisation of our electricity networks. Our achievement of that aim is a function not of political will, or financing, but rather our planning processes. Chambers Ireland’s concern is that Government will seek to by-pass planning problems by enacting legislation for a new Judicial Review system. This will put the right to a Judicial Review in conflict with constitutional rights and Aarhus Convention rights, such a decision to legislate a solution will inevitably see such legislation challenged through the Supreme Court and the European Court of Justice. Even if well crafted, this legal process will delay infrastructure related Climate Action. As a consequence, projects that rely on that Judicial Review legislation are unlikely to be completed before 2030. Our Network argues that it would be far more useful to continue the process of upskilling and resourcing our planning agencies (throughout every level) and also by created a dedicated Environment and Planning Court that could treat infrastructure and housing with the importance that it deserves.

With Decent Work and Economic Growth there have been many gains particularly around upskilling and retraining, the news of women’s participation in the workforce improving during the Covid pandemic is, again, welcome. However, childcare issues have become more pronounced over the pandemic.

## **Sustainable Cities and Communities Assessment**

On Sustainable Cities and Communities, Chambers Ireland's assessment is that we are slightly less likely to accomplish this goal than we were in 2020, as a result of losing those two years, but that there are significant upside risks that may make attaining that goal more likely. Specifically, there are risks that Housing for All will not meet its aims, and that the underpowering of Town Centre First will result in too little action to see the kind of progress that our urban areas need.

## **Climate Action Assessment**

On Climate Action, Chambers Ireland's assessment is that we are more likely to accomplish this goal than we were in 2020, as a result of update significant policy measures and through the passage of the Climate Action Bill, and the Maritime Area Planning Bill. However, there are significant downside risks to this assessment as if planning decisions do not align with the significant infrastructural investment that this Goal demands we are unlikely to accomplish it in the time needed.

## **Gender Equality Assessment**

On Gender Equality, Chambers Ireland's assessment is that we are more likely to accomplish this goal than we were in 2020, and that there are significant upside risks. We do not yet know what the full impact of remote working will be for women, but as the national conversation shifts towards flexible working it is likely that more opportunities will emerge for women regardless of where they are, or what point they are at in their lives. We are neutral on the childcare issue, relative to 2020. The neglect of childcare in the 2021 budget was concerning and retrograde, but the government seems to have addressed concerns in the 2022 budget and so we will be meeting the childcare issue post-covid at approximately the same point as we left off in 2020.

## **Decent Work and Economic Growth**

On Decent Work and Economic Growth, Chambers Ireland's assessment is that we are more likely to accomplish this goal than we were in 2020, and that there are significant upside risks. The 2020's are likely to be a good time for employees relative to employers, our significant concern – with respect to labour force developments – is that there will be a skills shortage which will inhibit growing to our full potential.

## **Industry, Innovation and Infrastructure**

On Industry, Innovation and Infrastructure, Chambers Ireland's assessment is that we are slightly more likely to accomplish this goal than we were in 2020, but there are significant downside risks. Planning is the problem here. We are not convinced that the administrative, planning, and judicial systems are capable of delivering the degree of infrastructure development that the National Development Plan demand. Concerns about security of electricity supply are already leading to FDI focussing on other jurisdictions.