

## Industrial policy in the Republic of Ireland

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Between 1970 and 2005, Ireland's average five-year gross national product (GNP) growth rate was four per cent per annum.<sup>1</sup> This strong growth rate was partly caused by a long-term industrial policy that started in the 1950s. Initially, Ireland's industrial policy focused on promoting an export-led growth model based on foreign direct investment (FDI). However, during the 1980s and 1990s a number of reports criticized Ireland's FDI-focused industrial policy, and this led to changes in Ireland's industrial strategy. For example, industrial policy started to focus more on indigenous enterprise from the 1980s. This continued through the 1990s and 2000s. Current Irish industrial policy directs significant resources towards building up indigenous exporters, funding research and innovation, and attracting FDI.

### The history of Irish industrial policy

Ireland had a relatively open market with the United Kingdom from independence in 1922 up until the 1930s.<sup>2</sup> However, Fianna Fáil's election victory in 1932 led to more protectionist policies, including high tariffs and quotas. In the 1940s and 1950s most FDI was banned from entering domestic markets.<sup>3</sup> Protectionism remained a key principle of government policy up until the late 1950s.<sup>4</sup>

Ireland's economy suffered during this period; protectionist policies had stifled trade in goods, and capital and labour were moving out of the country. Between 1955 and 1958 GNP shrunk on average by one per cent per annum, and during the 1950s Ireland lay near the bottom of the OECD growth table.<sup>5</sup> Ireland's poor economic performance created a widespread desire in policy circles to rethink Ireland's economic policy.

The 1958 report *Economic Development* was the main example of this new thinking.<sup>6</sup> It criticized Ireland's protection of infant industries and recommended policies that would open

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<sup>1</sup> F. Ruane, 'The Remarkable Irish Economy: From Catastrophic Collapse to Recovery', [online video], 2016, <https://www.youtube.com/watch?v=FXYJCvkGKhc>, (accessed 12 September 2016).

<sup>2</sup> W. Gorman and T. Cooney, 'An Anthology of Enterprise Policy in Ireland', *Irish Journal of Management*, Vol. 28, No. 2, p. 3, <http://arrow.dit.ie/cgi/viewcontent.cgi?article=1040&context=buschmarart>, (accessed 5 September 2016).

<sup>3</sup> Y.A. Wei and V.N. Balasubramanyam (ed.), *Foreign Direct Investment: Six Country Case Studies*, Cheltenham, Edward Elgar Publishing, 2004, p. 166.

<sup>4</sup> M. Breen and J. Dorgan, 'The Death of Irish Trade Protectionism: A Political Economy Analysis', *Irish Studies in International Affairs*, Vol. 24, 2013, p. 1, <http://doras.dcu.ie/19476/>, (accessed 29 August 2016).

<sup>5</sup> W.J.L. Ryan and M. O'Donoghue, 'The Republic of Ireland', *The Journal of Industrial Economics*, Vol. 13, Supplement: Papers on Regional Development, 1965, p. 88.

<sup>6</sup> *Ibid.*, p. 90.

up the Irish economy to FDI and trade.<sup>7</sup> Almost all of the report's policy proposals were accepted by the government, and they formed the basis of the First Programme for Economic Expansion (1959-1964).<sup>8</sup> These included tax reliefs on exports, capital grants towards the cost of new industrial investment and greater facilities for industrial credit. Both *Economic Development* and the First Programme for Economic Expansion signalled a change in Irish industrial policy, 'after which protectionist policies were abandoned.'<sup>9</sup>

During the 1960s a wave of firms, predominantly from the United States (US), set up operations in Ireland. A key incentive was Ireland's zero per cent tax on profits generated via exports.<sup>10</sup> Many of these firms simply transferred manufacturing and assembly line operations to Ireland in industries such as textiles, electrical goods and mechanical components. However, there were few supply chain linkages between these new foreign-owned firms and indigenous firms.<sup>11</sup> As a result, domestic firms could not fully capitalise on the demand that was generated by these new foreign firms.

During the late 1970s Ireland's economy grew satisfactorily. Real gross domestic product (GDP) increased by an average of 4.5 per cent between 1975 and 1979.<sup>12</sup> However, in the early 1980s the economy started to shrink. Real GDP growth contracted in 1982, 1983 and 1986,<sup>13</sup> and unemployment and emigration grew. This was partly caused by an increase in public-sector borrowing in the late 1970s and 1980s.

Ireland's economic decline led some civil servants to become sceptical of Ireland's heavy reliance on FDI. This scepticism was expressed in the 1973 *Cooper-Whelan Report*. By 1979 it was suspected that the apparent success of Ireland's foreign sector was not feeding into the wider economy because native industry was refusing to grow.<sup>14</sup>

The National Economic and Social Council commissioned the Telesis Enquiry into industrial policy in July 1980. Published in 1982, the *Telesis Report* criticized Ireland's focus on FDI for a number of reasons. Firstly, job losses were becoming a serious concern, and the report argued that FDI was not creating nearly as many secure jobs as previously thought.<sup>15</sup> In fact, only 30 per cent of the jobs approved by government-sanctioned projects in foreign-owned firms between 1972 and 1978 were still in existence in 1981.<sup>16</sup> Secondly, the report highlighted the failure of Irish industrial policy to create linkages between transnational corporations (TNCs) and indigenous industry.<sup>17</sup> This was apparent because native industry

<sup>7</sup> F. Ruane, 'Resonances from Economic Development for Current Economic Policy Making', *The Economic and Social Research Institute*, Working Paper No. 267, 2008, p. 3, <http://www.esri.ie/pubs/WP267.pdf>, (accessed 28 August 2016).

<sup>8</sup> W.J.L. Ryan and M. O'Donoghue, 1965, p. 90.

<sup>9</sup> M. Breen and J. Dorgan, 2013, p. 3.

<sup>10</sup> B. Andreosso-O'Callaghan and H. Lenihan, 'Responding to the crisis: are policies aimed at a strong indigenous industrial base a necessary condition for sustainable economic growth?' in D. Bailey, H. Lenihan and J. Arauzo-Carod (ed.), *Industrial Policy Beyond the Crisis: Regional, National and International Perspectives*, Abingdon, Routledge, 2012, p. 31.

<sup>11</sup> *Ibid.*, p. 31.

<sup>12</sup> J. Hogan and B. O'Rourke, 'The Critical Role of Ideas: A Discursive Institutional Approach to Understanding Change in Irish Industrial Policy', *Midwest Political Science Association Annual Conference*, Chicago, 5 April 2014, p. 6, <http://arrow.dit.ie/cgi/viewcontent.cgi?article=1130&context=buschmarcon>, (accessed 27 August 2016).

<sup>13</sup> *Ibid.*, p. 7.

<sup>14</sup> J. Lee, *Ireland, 1912-1985: Politics and Society*, Cambridge, Cambridge University Press, 1989, p. 531.

<sup>15</sup> *Ibid.*, p. 531.

<sup>16</sup> J.K. Jacobsen, *Chasing Progress in the Irish Republic: Ideology, Democracy and Dependent Development*, Cambridge, Cambridge University Press, 1994, p. 150.

<sup>17</sup> J. Hogan and B. O'Rourke, 2014, p. 9.

was not growing. In addition, TNCs were potentially repatriating profits and carried out little research and development (R&D) in Ireland. The latter creates high wage and high skill jobs. Something that Ireland needed at the time.

The *Telesis Report* argued that sustained economic development and high incomes rely more on indigenous entrepreneurship than FDI. As a result, the report advocated greater commitment towards developing strong indigenous firms. This would be achieved via a number of methods. Firstly, more state funding should be allocated to indigenous exporters or skilled sub-supply firms. Secondly, the report called on the government to pick between 50 and 75 Irish companies and offer them extensive government support.<sup>18</sup> The goal was to build world class domestic firms that could successfully compete on the international market. It was hoped that this would spur indigenous entrepreneurship. The report also asked government to insist that foreign companies establish R&D activities in Ireland and favour Irish suppliers.<sup>19</sup>

In 1984 the government released a white paper that officially responded to the *Telesis Report*. The response contained several changes to Ireland's industrial strategy.<sup>20</sup> Firstly, it was recognized that Ireland's economic growth was being curtailed by the country's dependence on FDI. However, the white paper also stated that there would be no radical change to FDI incentives. The government believed that keeping FDI incentives consistent and stable would be beneficial in the long run. But there were changes. Increasing the international competitiveness of the whole industrial sector was a new objective of industrial strategy. The report advocated greater targeting of industry, especially domestic companies with export potential, to increase the competitiveness of the industrial sector.<sup>21</sup>

The *Telesis Report* led to some industrial policy reform.<sup>22</sup> In 1984 the Company Development Programme provided assistance to selected indigenous companies. In 1985 the National Linkage Programme tried to increase the number of components, services and materials that TNCs bought from Irish suppliers. The programme assisted indigenous suppliers by improving their technical knowledge, strengthening their management, providing market research regarding linkage opportunities and matchmaking them with TNCs.<sup>23</sup>

Whilst the *Telesis Report* led to some industrial policy reform, it was less interventionist than the report envisaged.<sup>24</sup> For example, grants to indigenous firms increased by only three per cent between 1985 and 1989.<sup>25</sup> Also, industrial policy still focused heavily on FDI attraction during the late 1980s and early 1990s. For example, the Industrial Development Authority (IDA), a state agency that tried to attract FDI, was targeting high-tech TNCs with large R&D expenditures because they offered lucrative possibilities for linkages with Irish firms. By the 1980s, IDA subsidies represented 12 per cent of all public investment and two per cent of GDP.<sup>26</sup> During the early 1990s many politicians were concerned that the IDA was overly

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<sup>18</sup> J. Lee, 1989, p. 532.

<sup>19</sup> *Ibid*, p. 532.

<sup>20</sup> J. Hogan and B. O'Rourke, 2014, p. 11.

<sup>21</sup> *Ibid*, p. 11.

<sup>22</sup> A. Bielenberg and R. Ryan, *An Economic History of Ireland Since Independence*, Abingdon, Routledge, 2013, p. 29.

<sup>23</sup> J. Hogan and B. O'Rourke, 2014, p. 12.

<sup>24</sup> A. Bielenberg and R. Ryan, 2013, p. 29.

<sup>25</sup> J. Hogan and B. O'Rourke, 2014, p. 12.

<sup>26</sup> D. Ornston, *When Small States Make Big Leaps: Institutional Innovation and High-Tech Competition in Western Europe*, Ithaca, Cornell University Press, 2012, p. 142.

focused on the attraction and support of TNCs. They believed that this was detrimental to indigenous industry.

Another review of industrial policy was released in 1992: The *Culliton Report*. Like the *Telesis Report* it called for industrial policy to focus more on Ireland's indigenous sector. But unlike the *Telesis Report* it called for a reduction in grants given to enterprise. According to the new report, Irish industrial policy should not be picking individual companies or industries to succeed. Instead, it should be helping indigenous enterprise by promoting competition more generally.<sup>27</sup> It also advocated the breakup of the IDA, and it suggested that a state agency be established to focus solely on indigenous industry. A decade since the *Telesis Report*, Ireland's overdependence on foreign capital was still an overriding concern, and the new report stressed that linkages still needed to be made between domestic and foreign firms.

The 1993 Industrial Development Act implemented some of the report's suggestions. It broke up the IDA into three separate agencies: The Industrial Development Agency (IDA-Ireland), which specialises in FDI promotion; Enterprise Ireland, which assists indigenous enterprise; and Forfás, which concentrated on policy advice (Forfás was dissolved in 2014).

Despite previous concerns regarding Ireland's overdependence on FDI, Ireland gained huge inflows of FDI during the high-tech revolution of the 1990s. Ireland served as an intermediary between Silicon Valley and Europe. This allowed Ireland to benefit disproportionately from the global FDI boom. From 1993 to 2003 Ireland was the largest net FDI recipient in the OECD.<sup>28</sup> The majority of TNCs that invested in Ireland were in export-oriented high-technology sectors, especially electronics, pharmaceuticals, software and international services. The Irish economy, driven by the rise in exports, grew rapidly.

Employment saw concurrent growth over the same period. Domestic firms significantly increased employment in export-oriented technology sectors for the first time in their history. This was partly down to spin-offs and linkages from foreign investment. Indigenous firms were also being targeted by Irish industrial strategy, especially via grants, management development and mentoring networks. This strategy was particularly effective in some sectors. For example, during the 1990s Irish-owned software firms that received the most state grant funding exported more, employed more people and grew faster.<sup>29</sup>

But the localisation of FDI in high-tech industries and an over-reliance on FDI from the US made Ireland vulnerable to downturns in high-tech markets and the US economy.<sup>30</sup> This was demonstrated during the early 2000s when manufacturing declined rapidly, especially in computing and related electronics manufacturing. This was partly caused by the collapse of the dot-com bubble. Forfás employment surveys show a decline in the numbers employed in manufacturing by foreign owned firms from 112,178 in 2001 to 93,950 in 2006.<sup>31</sup> This rapid

<sup>27</sup> J. Hogan and B. O'Rourke, 2014, p. 13.

<sup>28</sup> P. Gunnigle, J. Lavelle and A. McDonnell, 'Subtle but Deadly? Union Avoidance Through 'Double Breasting' Among Multinational Companies', in D. Lewin and B.E. Kaufman (ed.), *Advances in Industrial and Labour Relations*, Bingley, Emerald Group Publishing Ltd, 2009, p. 52.

<sup>29</sup> S. O'Riain, 'Ireland's Industrial Policy Challenge', in D. Jacobson (ed.), *The Nuts and Bolts of Innovation: New Perspectives on Irish Industrial Policy*, Dublin, Glasnevin Publishing, 2013, p. 20.

<sup>30</sup> D. Bailey and H. Lenihan, 'A Critical Reflection on Irish Industrial Policy: A Strategic Choice Approach', *International Journal of the Economics of Business*, Vol. 22, No. 1, 2015, p. 12, [http://eprints.aston.ac.uk/25264/1/Critical\\_reflection\\_on\\_irish\\_industrial\\_policy.pdf](http://eprints.aston.ac.uk/25264/1/Critical_reflection_on_irish_industrial_policy.pdf), (accessed 24 August 2016).

<sup>31</sup> *Ibid*, p. 8.

decline in jobs also shows that the Irish economy's dependence on FDI has made it especially vulnerable to decision-making at corporate headquarters in other countries.

Some Irish industrial policies exacerbated the recession that occurred after the 2008 financial crisis. For example, Ireland's focus on corporation tax as a source of revenue hit the government's fiscal balance hard. When construction firms went bust corporation tax shrunk. This helped to cause a budget deficit which crippled the economy. However, some Irish industrial policies also made the recovery easier. Ireland's GDP had a faster recovery compared to other EU countries that had suffered a recession, including Spain, Italy and Greece. This quick recovery was caused by the openness of the Irish economy, the strong multinational sector and exports. Exports are a huge driver of Irish GDP growth (from 2010 exports of goods and services have accounted for over 100 per cent of GDP). During the recession exports barely declined, and they rose rapidly from 2013. This is because multinationals were able to export almost as easily as before the recession. They were not constrained by domestic credit markets, they had their own internal funds and they could borrow on international markets.<sup>32</sup>

## The nature of Irish industrial policy

### *Tax policy*

Ireland's low corporation tax rate is often described as a key part of its industrial policy. The country uses this low rate to attract foreign companies to invest. Currently, Ireland's corporation tax rate is 12.5 per cent for traded income and 25 per cent for non-traded income. Concerning the former, this is much lower than in many other countries, including the UK (20 per cent) and Germany (29.7 per cent). It is also much lower than the EU average (22 per cent) and the OECD average (24.9 per cent).<sup>33</sup>

Whilst Ireland has a low corporate tax rate, corporation tax makes up a larger part of its tax revenue compared to many other countries. In 2007 corporate tax payments made up 10.9 per cent of Ireland's total tax revenue. This was higher than in the UK (9.4 per cent), France (6.8 per cent), Germany (6.1 per cent), the EU-19 average (9.1 per cent) and the OECD average (10.8 per cent).<sup>34</sup> The corporate tax percentage is higher in Ireland because foreign companies are highly profitable in the country. As a result, profits are switched to Ireland via transfer pricing.<sup>35</sup> Ireland's low corporate tax rate is not the only reason why some companies switch profits via transfer pricing. Other factors include a tax regime that is very responsive to the demands of foreign investors, a network of double tax treaties and ease of incorporation.<sup>36</sup>

<sup>32</sup> F. Ruane, 'The Remarkable Irish Economy: From Catastrophic Collapse to Recovery', [online video], 2016, <https://www.youtube.com/watch?v=FXYJCvkGKhc>, (accessed 12 September 2016).

<sup>33</sup> KPMG, 'Corporate Tax Rates Table', <https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>, (accessed 20 August 2016).

<sup>34</sup> J. Stewart, 'Corporation Tax: How Important is the 12.5% Corporate Tax Rate in Ireland', in D. Jacobson (ed.), *The Nuts and Bolts of Innovation: New Perspectives on Irish Industrial Policy*, Dublin, Glasnevin Publishing, 2013a, p. 64.

<sup>35</sup> *Ibid.*, p. 64.

<sup>36</sup> *Ibid.*, p. 64.

Ireland has many features of a tax haven, including ease of incorporation, relatively light touch regulation, low corporation tax rates, and tax and other forms of legislation that are very responsive to the needs of multinational corporations.<sup>37</sup> In addition, the Irish tax system has a history of offering mechanisms that make it possible for a company to pay an effective corporation tax rate much lower than the standard 12.5 per cent.<sup>38</sup> Large companies, such as Google,<sup>39</sup> Apple and Facebook,<sup>40</sup> have benefitted from such mechanisms.

In 2014 the European Commission launched a state aid investigation into Ireland's tax relationship with Apple.<sup>41</sup> The investigation found that two Irish tax rulings had endorsed a way to 'establish the taxable profits for two Irish incorporated companies of the Apple group... which did not correspond to economic reality'.<sup>42</sup> These two incorporated companies were Apple Sales International and Apple Operations Europe. The two companies attributed almost all of their sales profits to head offices that only existed on paper. The Commission's assessment showed that these head offices could not have generated the profits that were assigned to them. Under provisions in Irish tax law, the profits allocated to these head offices were not subject to tax in any country (these provisions are no longer in force). This allowed Apple to pay an 'effective corporate tax rate of 1 per cent on its European profits in 2003 down to 0.005 per cent in 2014'.<sup>43</sup> Apple's tax treatment in Ireland allowed it to avoid taxation on almost all profits generated via product sales in the EU single market.<sup>44</sup>

In 2016 the European Commission concluded that Ireland had given Apple a 'significant advantage over other businesses that are subject to the same national taxation rules'.<sup>45</sup> This selective tax treatment is illegal under EU state aid rules, and the Commission has asked Ireland to recover the unpaid taxes from Apple for the years 2003 to 2014. This amounts to approximately €13 billion. The year 2003 may seem arbitrary, but the Commission can only order recovery of illegal state aid for a ten-year period preceding the Commission's first request for information.<sup>46</sup> The information was first requested in 2013.

Ireland's cabinet has agreed to appeal the decision, and the appeal will have to go through the EU courts.<sup>47</sup> According to the Irish Minister for Finance Michael Noonan, the appeal

<sup>37</sup> J. Stewart, 'Is Ireland a Tax Haven?', *Institute for International Integration Studies*, Discussion Paper No. 403, 2013b, p. 10, <https://www.tcd.ie/iis/documents/discussion/pdfs/iisd430.pdf>, (accessed 26 September 2016).

<sup>38</sup> M. Hennigan, 'IMF explains "Double Irish Dutch Sandwich" tax avoidance', [http://www.finfacts.ie/irishfinancenews/article\\_1026675.shtml](http://www.finfacts.ie/irishfinancenews/article_1026675.shtml), 2013, (accessed 27 September 2016).

<sup>39</sup> A. Beesley, 'Google moved over €28bn through State in tax scheme', *The Irish Times*, 20 February 2016, <http://www.irishtimes.com/business/economy/google-moved-over-28bn-through-state-in-tax-scheme-1.2541860>, (accessed 27 September 2016).

<sup>40</sup> J. Smyth, "'Double Irish' limits Facebook's tax bill to €1.9m in Ireland', *Financial Times*, 5 December 2013, <https://www.ft.com/content/ca64f938-5dc0-11e3-95bd-00144feabdc0>, (accessed 27 September 2016).

<sup>41</sup> Pinsent Masons, 'EU State aid enquiries into tax rulings', <http://www.pinsentmasons.com/en/media/legal-updates/eu-state-aid-enquiries-into-tax-rulings/>, September 2016, (accessed 27 September 2016).

<sup>42</sup> European Commission, 'State aid: Ireland gave illegal tax benefits to Apple worth up to €13 billion', [http://europa.eu/rapid/press-release\\_IP-16-2923\\_en.htm](http://europa.eu/rapid/press-release_IP-16-2923_en.htm), 30 August 2016, (accessed 27 September 2016).

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

<sup>46</sup> Ernst and Young, 'European Commission finds Ireland granted illegal State aid and orders recovery – a further review', <http://www.ey.com/gl/en/services/tax/international-tax/alert--european-commission-finds-ireland-granted-illegal-state-aid-and-orders-recovery---a-further-review>, 7 September 2016, (accessed 27 September 2016).

<sup>47</sup> Bloomberg, 'Ireland's Noonan: Apple Tax Appeal May Take Four Years', [online video], 2016, <http://www.bloomberg.com/news/videos/2016-09-23/ireland-s-noonan-apple-tax-appeal-may-take-four-years>, (accessed 27 September 2016).



could take four years or more.<sup>48</sup> Ireland must still recover the illegal state aid whilst it awaits the outcome of the EU court procedures.<sup>49</sup>

There are other types of tax expenditures that are used to benefit enterprise. In 2010 Ireland had 28 different types of tax expenditure with the purpose of assisting industry (including farming).<sup>50</sup> Due to a lack of data, the Department of Finance could only quantify the cost of 12 of these: €457 million.

The four largest tax reliefs were the Agricultural Relief from the Capital Acquisitions Tax (€100 million), tax exemption for patent royalties (€84 million), stamp duty relief for young farmers (€71 million) and the R&D tax credit (€54 million).<sup>51</sup> All of these tax expenditures benefit targeted industries. The Agricultural Relief grants tax relief from gift or inheritance tax applicable to farm land. This shields farms from damaging taxes and makes it easier for farmers to transfer a farm from one generation to the next, thereby making it easier for farms to survive. Under the R&D tax credit, all qualifying R&D expenditure is eligible for a 25 per cent tax credit. This tax credit covers basic, applied and experimental research in four broad areas: natural sciences, engineering and technology, medical sciences and agricultural sciences. This is meant to spur private investment in scientific and technological innovation.

It is worth noting that the importance of Ireland's low corporation tax has been overstated. Many studies have shown that tax is not the most important factor in influencing investment decisions.<sup>52</sup> Support for small and medium-sized enterprises (SMEs), support for high-tech industries and innovation, market size, distance to market and wage costs have all been cited as more influential.

Also, Ireland's low corporation tax rate sits inside a broader tax structure that is attractive to firms. This includes beneficial regulation, other tax expenditures, ease of incorporation, double tax treaties and the ability to fit the company's Irish operations into a coherent group tax strategy.<sup>53</sup> Ireland's low corporation tax rate would not be nearly as attractive to TNCs without this broader tax structure.

### *State agencies*

Over the past decade state agencies have helped promote exports, create jobs, stimulate private financing of Irish enterprises and seed research and venture financing (particularly in times of recovery after the 2008 financial crisis).<sup>54</sup>

Many agencies utilize direct grants and financial support to accomplish industrial policy objectives. In 2015 three state agencies directed significant amounts of funding to industry:

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<sup>48</sup> Ibid.

<sup>49</sup> European Commission, 30 August 2016.

<sup>50</sup> M. Collins and M. Walsh, *Ireland's Tax Expenditure System: International Comparisons and a Reform Agenda*, The Policy Institute, Trinity College Dublin, 2010, p. 3, [https://www.tcd.ie/policy-institute/assets/pdf/Tax\\_Expenditure\\_Blue\\_Paper\\_24.pdf](https://www.tcd.ie/policy-institute/assets/pdf/Tax_Expenditure_Blue_Paper_24.pdf), (accessed 4 September 2016).

<sup>51</sup> P. Sweeney, 'State Support for the Irish Enterprise Sector', in D. Jacobson (ed.), *The Nuts and Bolts of Innovation: New Perspectives on Irish Industrial Policy*, Dublin, Glasnevin Publishing, 2013, p. 121.

<sup>52</sup> J. Stewart, 2013a, p. 69.

<sup>53</sup> Ibid, p. 69.

<sup>54</sup> S. O'Riain, 2013, p. 16.

Enterprise Ireland committed €196 million in financial support,<sup>55</sup> Science Foundation Ireland gave €162.7 million in grants,<sup>56</sup> and IDA-Ireland gave €98.6 million in grants.<sup>57</sup>

These agencies focus on very different areas: Enterprise Ireland assists Irish exporters; Science Foundation Ireland funds scientific research that assists industry; and IDA-Ireland tries to attract FDI. Whilst Irish industrial policy is too broad to fully categorize, this shows that current industrial policy directs significant resources towards creating and developing indigenous exporters, research and innovation, and attracting FDI.

### *Foreign direct investment*

FDI attraction has been a key part of Irish industrial policy for the past 70 years. During this time, FDI has become extremely important to the Irish economy. In 2012 FDI accounted for one in every two jobs and €122 billion in estimated exports.<sup>58</sup> A number of factors contribute to this large amount of FDI, including EU membership, Western European governance standards and using the English language. The large inflow of FDI has also been spurred by a number of industrial policies, including an attractive tax system.<sup>59</sup>

IDA-Ireland is a state agency that tries to attract TNCs to invest in Ireland by offering various supports and incentives. Usually IDA-Ireland works with TNCs throughout the entire FDI process.<sup>60</sup> Initially, the agency targets a specific foreign company directly via their global office network or indirectly via international marketing. The agency will then provide information and site visits to develop the business case for investment. It may also help the TNC find property and office locations. Once the foreign company decides to invest in Ireland, IDA-Ireland provides a variety of financial supports, including employment, capital, R&D, environmental and training grants. Once established in Ireland, IDA-Ireland provides on-going support to the TNC. For example, the agency may help the company expand its operations or identify new opportunities. To achieve this, IDA-Ireland offers networking opportunities and connections with public bodies, Irish firms and other TNCs.

Since 2010, 70 per cent of investments won by IDA-Ireland have come from the US and 20 per cent have come from Europe. The agency targets FDI investment from eight sectors: technology, media and content, business services, pharmaceuticals, medical devices, engineering, ingredients and financial services.<sup>61</sup> IDA-Ireland's largest expenditure is on grants; in 2015 the agency spent €98.6 million on grants. This total comprises five different types of grant: R&D (€55.6 million), employment (€20.2 million), capital (€13.1 million), training (€8.8 million) and other (€0.8 million).<sup>62</sup> IDA-Ireland's strategy has led to some

<sup>55</sup> Enterprise Ireland, *2015 Annual Report and Accounts*, 2016, p. 34, <https://www.enterpriseireland.com/en/Publications/Reports-Published-Strategies/Annual-Reports/2015-Annual-Report-and-Accounts-English.pdf#page=36>, (accessed 7 September 2016).

<sup>56</sup> Science Foundation Ireland, *Annual Report and Accounts 2015*, 2016, p. 50, <http://www.sfi.ie/assets/media/files/downloads/Publications/Annual%20Reports/Annual%20report%202015.pdf#page=52>, (accessed 7 September 2016).

<sup>57</sup> IDA-Ireland, *Annual Report and Accounts 2015*, 2016, p. 25, <http://www.idaireland.com/about-ida/annual-reports/#page=34>, (accessed 7 September 2016).

<sup>58</sup> D. Bailey and H. Lenihan, 2015, p. 24.

<sup>59</sup> *Ibid.*, p.12.

<sup>60</sup> IDA-Ireland, *Winning: Foreign Direct Investment 2015-2019*, p. 24, <http://www.idaireland.com/about-ida/winning-fdi/>, (accessed 7 September 2016).

<sup>61</sup> *Ibid.*, p. 22.

<sup>62</sup> IDA-Ireland, 2016, p. 34.



significant successes. In 2014 IDA-Ireland's client companies paid €2.8 billion in corporation tax,<sup>63</sup> exported €130 billion in goods and services and employed 175,223 people.<sup>64</sup>

### *Indigenous enterprise*

Historically, Irish industrial policy focused on attracting FDI. However, after the Telesis and Culliton reports it became accepted that industrial policy should also focus on indigenous enterprise. Much of current policy focuses on indigenous exporters because of their importance to the Irish economy. In 2015 exports represented 121 per cent of GDP.<sup>65</sup>

Enterprise Ireland is a state agency that works in partnership with Irish enterprises to help them start, grow, innovate and win export sales in global markets. The agency offers many services to fulfil these goals, including advice on strategy and organisational structure; information on market opportunities and conditions; introductions to international buyers, partners and investors; overseas promotion and networking via ministerial-led trade missions; and access to funding, including via direct grants, venture capital funds and direct equity investment.<sup>66</sup> Last year, Enterprise Ireland financially supported 217 start-ups; trained 290 managers to grow their business; built 896 collaborative projects between companies and higher education to foster innovation; and helped 429 companies establish new overseas presences.

In 2010 the Irish government published its four-year economic recovery plan: *The National Recovery Plan 2011-2014*. The report advocated a number of measures to assist small indigenous businesses, including SMEs and high potential start-ups. Firstly, it called on state agencies to work more with indigenous SMEs to boost exports to new and existing markets. Enterprise agencies would also help indigenous SMEs access more public procurement contracts. In addition, the report asked the government to investigate the potential for giving indigenous SMEs access to vacant or under-utilised public property.<sup>67</sup>

### *Research and innovation*

Since 2012 public funding of research and innovation has become more targeted. This shift in industrial policy was based on recommendations contained in the 2012 *Report of the Research Prioritisation Steering Group* (RPSG).<sup>68</sup> According to the report, public investment in research should be targeted towards specific industries and sectors that will create large economic and social benefits.<sup>69</sup> The RPSG set an agenda from 2013 to 2017, and the

<sup>63</sup> IDA-Ireland, *Annual Report & Accounts 2014*, 2015, p. 5, <http://www.idaireland.com/about-ida/annual-reports/#page=34>, (accessed 8 September 2016).

<sup>64</sup> IDA-Ireland, 2016, p. 11-12.

<sup>65</sup> The World Bank, World Bank Development Indicators, *Exports of Goods and Services (% of GDP)*, 2016, [Data File], <http://databank.worldbank.org/data/reports.aspx?source=2&series=NE.EXP.GNFS.ZS&country=IRL>, (accessed 23 August 2016).

<sup>66</sup> Enterprise Ireland, 2016, p. 8.

<sup>67</sup> The National Recovery Plan 2011-2014, 2010, p. 41, <http://www.budget.gov.ie/The%20National%20Recovery%20Plan%202011-2014.pdf>, (accessed 26 August 2016).

<sup>68</sup> Research Prioritisation Steering Group, *Report of the Research Prioritisation Steering Group*, 2012, <https://www.djei.ie/en/Publications/Publication-files/Research-Prioritisation.pdf>, (accessed 4 September 2016).

<sup>69</sup> *Ibid*, p. 8.

government declared that implementation of the RPSG will be its primary science, technology and innovation (STI) policy goal.<sup>70</sup>

RPSG identified 14 priority areas for public investment, including manufacturing competitiveness, medical devices, marine renewable energy, therapeutics, and smart grids and smart cities. According to the report, these 14 areas should be supported by wider research across six areas in science and technology: basic biomedical science, nanotechnology, advanced materials, microelectronics, photonics and software engineering. The 14 priority areas and six supportive research areas should receive the majority of competitive public investment in STI from 2013 to 2017.<sup>71</sup>

In March 2012 the government created the Research Prioritisation Action Group (RPAG) to oversee the coordinated implementation of the RPSG's strategy. Chaired by the Minister for Research and Innovation, the group brings together senior officials from six government departments and 10 state agencies with responsibility for funding research and innovation. It includes senior officials from Enterprise Ireland, Science Foundation Ireland and IDA-Ireland. In 2013 the RPAG oversaw the development of action plans for each of the 14 targeted policy areas; these were published in July 2013.<sup>72</sup> Each plan sets out key objectives, prescribes the actions needed to meet each objective, and specifies which state agency/department should be involved with these actions.

The RPSG is predominantly implemented via state agencies. From 2012 to 2014 state agencies were responsible for implementing approximately 82 per cent of all actions taken in accordance with the action plans.<sup>73</sup> In fact, just two state agencies were responsible for implementing 41 per cent of all actions: Enterprise Ireland and Science Foundation Ireland.

Science Foundation Ireland is a state agency that funds scientific research that promotes the development and competitiveness of industry, enterprise and employment. Most of this research is funded via grants; in 2015 the agency spent €162.7 million on grant funding. This was spread amongst a variety of areas. The four biggest were processing technologies and new materials (€28.4 million); therapeutics (€20.3 million); data analytics, management, security and privacy (€19.6 million) and future networks and communications (€17.7 million).<sup>74</sup> All four are policy areas targeted by the RPSG. In fact, of the €297 million in awards granted by Science Foundation Ireland in 2013, 94 per cent fell within the RPSG's 14 priority areas or six science and technology areas.<sup>75</sup>

Much of Science Foundation Ireland's funding tries to foster collaboration between scientific researchers and industry. The aim is to create innovations within specific industries, including agriculture, health and technology. This is achieved via many initiatives, including

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<sup>70</sup> Forfás, *National Research Prioritisation Exercise: First Progress Report*, 2014, p. 6, <https://www.djei.ie/en/Publications/Publication-files/Forf%C3%A1s/National-Research-Prioritisation-Exercise-First-Progress-Report.pdf>, (accessed 4 September 2016).

<sup>71</sup> Department of Jobs, Enterprise and Innovation, 'Research Prioritisation', <https://www.djei.ie/en/What-We-Do/Innovation-Research-Development/Research-Prioritisation/>, (Accessed 1 September 2016).

<sup>72</sup> Department of Jobs, Enterprise and Innovation, 'Research Prioritisation Action Plans', <https://www.djei.ie/en/Publications/Research-Prioritisation-Action-Plans1.html>, 2013, (Accessed 1 September 2016).

<sup>73</sup> Forfás, 2014, p. 10.

<sup>74</sup> Science Foundation Ireland, 2016, p. 62.

<sup>75</sup> Forfás, 2014, p. 13.

the Research Centres Programme.<sup>76</sup> Twelve research centres have been established via €355 million of the agency's funding and €190 million from industry collaborators. These research centres link scientists and engineers to industry to address crucial research questions, attract valuable industries and develop new and existing Irish-based technology companies. These 12 research centres focus heavily on the RPSG's 14 policy areas. Other initiatives include the Industry Fellowships Programme and the Partnership Programme.<sup>77</sup>

Science Foundation Ireland's programmes have increased cooperation between industry and academia. This increased cooperation has helped create new innovations. In 2015 innovations included the on-going development of new drugs and products, including those that could cure Crohn's disease and obesity-associated diseases,<sup>78</sup> and the development of a genotyping chip that can show how susceptible bulls and cows are to bovine diseases.<sup>79</sup> The latter will help specific farming industries save money and increase efficiency. In 2015 Science Foundation Ireland's awards directly supported 1,220 collaborations with industry.<sup>80</sup>

Many of the RPSG's 14 policy areas span multiple sectors or industries. As a result, state agencies and government departments are increasingly collaborating in the coordination of R&D. This has led to the creation of many inter-agency collaborative initiatives. Science Foundation Ireland, in collaboration with Enterprise Ireland, currently offers the Technology Innovation Development Award (TIDA). Its purpose is to enable researchers to focus on the initial stages of an applied research project which may have commercial benefit if further developed. It is hoped that this will lead to the development of new or innovative technologies, products, processes and services. RPSG's 14 policy areas are especially targeted. TIDA offers €10,000 in project funding for technology development as well as entrepreneurial and commercialisation training. Between 2009 and 2013 Science Foundation Ireland awarded 283 TIDA awards to 17 institutes. These were worth €25 million. This support led to 57 patents, 9 licences and 7 spin out companies.<sup>81</sup>

Whilst the Irish government is still implementing the RPSG's strategy, a new five-year research and innovation strategy was adopted from late 2015: Innovation 2020.<sup>82</sup> The new programme has an overarching goal of increasing public and private investment in research to 2.5 per cent of GNP by 2020.

The Innovation 2020 strategy advocates increasing the amount of public investment in order to leverage a greater amount of private investment.<sup>83</sup> Investment will still be targeted at the RPSG's 14 priority areas. However, precedence will be given to six priority areas: ICT,

<sup>76</sup> Science Foundation Ireland, 'SFI Research Centres Programme', <http://www.sfi.ie/funding/funding-calls/open-calls/sfi-research-centres-programme-2016.html>, (accessed 10 September 2016).

<sup>77</sup> Science Foundation Ireland, 'Science Foundation Ireland Programmes with Industry', <http://www.sfi.ie/working-with-enterprise/programmes-with-industry.html>, (accessed 10 September 2016).

<sup>78</sup> Science Foundation Ireland, 'Health Researchers in Ireland', <http://www.sfi.ie/investments-achievements/research-showcase/health-researchers-in-ireland/>, (accessed 10 September 2016).

<sup>79</sup> Science Foundation Ireland, 'Agriculture Research in Ireland', <http://www.sfi.ie/investments-achievements/research-showcase/agriculture-research-in-ireland.html>, (accessed 10 September 2016).

<sup>80</sup> Science Foundation Ireland, 2016, p. 2.

<sup>81</sup> Frontline, *Evaluation of the Technology Innovation Development Award (TIDA) Programme: Final Report for Science Foundation Ireland*, London, 2016, p. 1,

<http://www.sfi.ie/assets/files/downloads/Publications/Organisation%20Publications/SFI%20-%20Evaluation%20of%20TIDA%20-%20Final%20Report%20March%202016>, (accessed 10 September 2016).

<sup>82</sup> Department of Jobs, Enterprise and Innovation, *Innovation 2020: Ireland's Strategy for Research and Development, Science and Technology*, 2015, <https://www.djei.ie/en/Publications/Publication-files/Innovation-2020.pdf>, (accessed 10 September 2016).

<sup>83</sup> *Ibid*, p.9.

manufacturing and materials, health and medical, food, energy, and services and business processes. Manufacturing and materials and services and business processes will receive special attention because they are particularly important to the Irish economy.

Investment in priority areas will be assisted via direct supports, R&D tax credits and the new Knowledge Development Box (KDB). Instead of the usual corporation tax rate paid by companies in Ireland (12.5 per cent), the KDB grants a lower tax rate on profits arising from certain intellectual property assets which result from qualifying R&D activity in Ireland. This lower tax rate is 6.25 per cent. The KDB relief is meant to incentivize companies to develop intellectual property that has a high value added for the Irish economy.<sup>84</sup>

It is hoped that Innovation 2020's targeted investment strategy will create a variety of positive outcomes for the Irish economy, including increased competitiveness, more high-value jobs and higher levels of FDI.

### **Conclusion: The successes and failures of Irish industrial policy**

Transitioning from protectionism to an export-led FDI growth model in the late 1950s and 1960s helped the Irish economy grow fairly impressively. However, making FDI attraction the centrepiece of industrial policy without developing other areas of the economy, such as indigenous enterprise, created tensions.<sup>85</sup> As a result, the Irish economy became over dependent on FDI. This overdependence made Ireland's economy vulnerable to strategic decisions made by TNCs, downturns in high-tech markets and slumps in the US economy.

Current Irish industrial policy is trying to remedy Ireland's overdependence on FDI. This includes helping domestic exporters, for example via Enterprise Ireland; developing new Irish-based technology companies, for example via Science Foundation Ireland's research centres; and increasing domestic entrepreneurialism, for example via the entrepreneurial and commercialisation training offered by the TIDA.

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<sup>84</sup> IDA-Ireland, *Knowledge Development Box*, <http://www.idaireland.com/how-we-help/resources/infographics/knowledge-development-box/>, (accessed 11 September 2016).

<sup>85</sup> D. Bailey and H. Lenihan, 2015, p. 1.

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