



An Roinn Post, Fiontar agus Nuálaíochta  
Department of Jobs, Enterprise and Innovation

# Policy Statement on Foreign Direct Investment in Ireland

July 2014

## Foreword

Foreign Direct Investment (FDI) has played a significant role in advancing Ireland's economic development over the past decades and will continue to do so over coming decades. We have performed very strongly in challenging global economic conditions, creating over 18,000 net new FDI jobs in agency supported foreign firms in the last three years, a testament to our strong track record and supportive operating environment. These high calibre jobs and the indirect employment spin-offs they generate in the Irish economy are making a vital contribution to this Government's ambition to have 100,000 more people in work by 2016.



We know that FDI is ultimately a business decision and that international competition for mobile investment is intensifying. Ireland is determined to be a location of choice for innovative activities and enterprises and to take the steps necessary to realise our ambition to be the best small country in the world in which to do business.

We are taking concerted and determined action through the Government's annual Action Plan for Jobs. In addition, we need to take a long term perspective and to constantly review what Ireland offers in a context of continuous and disruptive change globally. This FDI Statement, drawing on extensive research by Forfás, sets out the blueprint and steps we will take to truly differentiate Ireland's offering.

Our people are the cornerstone of our success – known for their innovativeness and flexibility. Competition for talent is global – and talent is mobile. Ireland will be that place which nurtures talent to meet the needs of an advanced economy, developing its own people and attracting talent from around the world. We will focus on creating competitive and globally connected city regions, attractive places to do business, to work, and to live. Now is the time to reap the rewards from our sustained investment in research and development so that we become globally renowned as the place where R&D is connected to the needs of enterprise, built on research excellence.

We will work in partnership with companies and potential investors, to listen and understand how we can maintain a globally competitive business environment. We will build viable clusters and ecosystems for key sectors, combining Irish owned and foreign firm activity, sub-supply, research and supportive regulations. We will maintain a focus on managing our relative cost competitiveness and we remain committed to maintaining an open, transparent, stable, and competitive corporate tax regime.

Building on our strengths, evolving sectors and activities will create future FDI opportunities for Ireland. Emerging growth markets, early stage companies and mobile entrepreneurs offer scope to further diversify our FDI portfolio. IDA Ireland and Enterprise Ireland will continue to work closely with prospective investors to determine how best Ireland can partner with them for growth and success. I have asked IDA Ireland to develop its strategy to take us to 2020. This will need to take into account the changing global environment and specifically identify ways in which they will collaborate with other agencies and bodies, both here and in overseas markets, to deliver enduring investments for Ireland.

We are already succeeding in rebuilding our economy, on restoring a pathway to growth. This is an ambitious Statement by Government to invest in a future built on differentiating what we offer to globalising enterprises, realising sustainable growth, and providing jobs that our people need and want.

Richard Bruton, T.D.

Minister for Jobs, Enterprise and Innovation

July 2014



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## Introduction

Ireland's economic growth is dependent on a sustainable, competitive enterprise base encompassing both indigenous and foreign owned firms that trade internationally, those that currently serve local markets with potential to internationalise, and those that will continue to play a key role in serving local demand. Foreign Direct Investment (FDI) has been a key contributor to Ireland's economic development and growth through providing rewarding employment for over 250,000 people directly, knowledge transfer, and transformation of the enterprise base. Global competition for the attraction of FDI has intensified significantly in recent years.

Inward investment can continue to make a substantial contribution to Ireland's economic development *if* we continue to create the right conditions and environment that meet the needs of today's globalised businesses. There is a distinction too, between the broader FDI policy framework, which is about developing the Ireland 'product' and that requires the commitment of a number of government departments, agencies and stakeholders; and investment promotion that is primarily the role of IDA Ireland.

Ireland's relative cost competitiveness, corporate tax rate and available direct firm level financial supports remain critically important - but in reality they are no longer aspects that will substantially differentiate Ireland's offering for FDI over the longer term. We need both to maintain a competitive offering in these areas *and* at the same time redouble efforts to develop and reinforce other aspects to truly differentiate Ireland's offering.

We have made some pivotal policy shifts in the past that helped to set Ireland apart in terms of our FDI offering, for example: education reforms in the 1960s; investment in International Financial Services Centre (IFSC) in the 1980s; Global Crossing in the late 1990s<sup>1</sup>; and the step change in Science, Technology and Innovation investments since 2000, among others. Step changes of a similar scale are needed to ensure that we sustain globally differentiated competitive advantage.

We will focus on differentiating Ireland's offering in three key areas:

- talent;
- connected world leading research; and
- place-making to provide attractive city regions to live, work and attract investment.

We will also strengthen our approach to sectoral ecosystem development and to effective execution.

It is important to acknowledge that FDI is ultimately a business decision. Fundamentally, Ireland's FDI policy is about competing successfully for the right FDI for Ireland's economy; it is about ensuring that those investments are sustainable and contribute optimally to job creation and economic growth; and it is about ensuring that the decision to invest in Ireland remains strategically the best choice for the multinationals who are considering many alternatives today.

This Policy Statement is based on research and analysis undertaken by Forfás, informed by multinational businesses, global FDI trends, Ireland's FDI performance, FDI policy approaches internationally, and international Investment Promotion Agency (IPA) approaches.

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<sup>1</sup> Investment in global fibre optic connectivity on a PPP basis with Global Crossing

It is set within the Government's overarching *Medium Term Economic Strategy* for Ireland (MTES 2020) and forms a key plank of Ireland's enterprise policy framework as set out in *Making it Happen: Growing Enterprise for Ireland*<sup>2</sup>, and the *Action Plan for Jobs*<sup>3</sup>.

## Global FDI trends

Multinational corporations (MNCs) operate today within an interconnected and complex web of activities, geographic locations and strategic partners, as they seek to optimise value in a global economy. There is significant potential and capacity for further FDI growth globally, as MNCs regain confidence and turn accumulated cash holdings into new investments. Despite the positive outlook for recovery in global FDI inflows, there are ongoing economic uncertainties in Europe and the wider global economy.

The pattern of global FDI has shifted over the past two decades, with a growing level of investment flows to and from developing and transitioning economies. In 2013 FDI inflows to developing economies surpassed those of developed economies by \$183 billion and accounted for 52 percent of FDI flows that year<sup>4</sup>. At the same time, flows into Europe and the EU have reduced substantially. In 2013 the EU-27 attracted just under 20 percent of global inflows. In value terms, inflows to the EU-27 have dropped from highs of \$701 billion in 2000 and \$859 billion in 2007 to about \$286 billion in 2013 (levels rebounded in 2011 to \$473 billion but dropped dramatically again in 2012 to \$207 billion<sup>5</sup>).

Cross-border mergers and acquisition (M&A) activity to access technology, talent and customers is increasing as strategic asset seeking has gained importance as a motivating factor in global FDI. M&A accounts for about 20 percent of total global FDI flows currently, and the data shows that after a slowdown in activity in Europe, there are signs of recovery. There is a likelihood of more activity in Ireland in the context of increased European based cross-border M&A deals, although Ireland is a relatively small target market for such cross-border M&A activity currently<sup>6</sup>.

In terms of sectors, change is the constant theme, with disruptive mega-trends continuing to impact on the evolution of products, services and business models and blurring the edges between them.

A pervasive trend globally is the accelerating 'young economy' dynamic: companies are mobile at a much earlier stage in their lifecycle and need multi-territory presence for growth. Entrepreneurs are searching for the optimum start-up location from which to grow global businesses and want to be part of an ecosystem that provides access to skills, finance, innovative suppliers and customers. The phenomenon of the 'tech hub' has become well established and cities internationally are vying for the attention of fast growing young firms, entrepreneurs and talent. And it is not just about the fast growing

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<sup>2</sup> The *Medium Term Economic Strategy 2020* (MTES) is available at <http://mtes2020.finance.gov.ie/>; *Making it Happen: Growing Enterprise for Ireland* provides an overview of Ireland's enterprise policy framework and is available at: [http://www.forfas.ie/media/Forfas100924-Making\\_It\\_Happen-Growing\\_Enterprise\\_for\\_Ireland.pdf](http://www.forfas.ie/media/Forfas100924-Making_It_Happen-Growing_Enterprise_for_Ireland.pdf)

<sup>3</sup> The *Action Plan for Jobs 2014* is available at: <http://www.djei.ie/publications/2014APJ.pdf>

<sup>4</sup> *Global Investment Trends Monitor*, No. 15, UNCTAD, 28th January 2014, and *World Investment Report 2012: Global Value Chains: Investment and Trade for Development*, UNCTAD, 2013

<sup>5</sup> *Ibid*

<sup>6</sup> M&A activity in Ireland in 2013 was dominated by loan book sales, private equity and deals in financial services, pharma, biotech, energy and technology. The outlook for M&A activity in Ireland for 2014 and beyond is encouraging based on global trends in M&A and renewed confidence in the Irish business environment. Source: *Mergers and Acquisitions, November 2013*, available at [http://www.granthornton.ie/db/Attachments/GT-MA-Flyer\\_-\\_November-2013-291113.pdf](http://www.granthornton.ie/db/Attachments/GT-MA-Flyer_-_November-2013-291113.pdf)

young firms; well established MNCs are drawn to technology hot-spots to access talent and the ideas emerging from innovative start-ups.

Availability of talent features strongly in location selection. National and city governments are intensifying their focus and developing initiatives to ensure they are attractive destinations for internationally mobile talent.

The role of cities has become increasingly important in FDI flows – not only in terms of the city itself but how it is connected and networked globally.

Within this context, the competition for FDI attraction has intensified. A number of countries operate quite aggressive FDI policies and strategies, with attractive offerings on property, tax, visas and other incentives. Policy shifts in other countries can quickly introduce or re-introduce direct competition with Ireland for certain activities.

### Ireland's FDI performance

Ireland continues to punch above its weight, attracting more investment per capita than most other developed countries. In 2013 Ireland was ranked 10<sup>th</sup> in terms of FDI project inflows globally, ahead of countries such as Germany, Spain and the Netherlands<sup>7</sup>. It was one of the few EU countries that experienced an increase in FDI inflows in 2012. Ireland's strong performance is also reflected in its top five ranking in Europe for projects won in a number of sectors and activities, including shared services, medical devices, pharmaceuticals, contact centres, biotechnology, semiconductors and software/IT services. In pharmaceuticals, Ireland won a 10 percent share of projects to Europe, a 15 percent share of software and services projects and 14 percent of medical devices projects. In business and financial services Ireland was ranked at 6<sup>th</sup> and 7<sup>th</sup> in Europe with a 5 percent share of projects going to Europe<sup>8</sup>.

The food sector offers further potential, building on a number of investment wins from indigenous MNCs with mobile investment projects. Performance is also relatively muted in clean technology<sup>9</sup> in a European context despite strong technical/IT related competence in Ireland of relevance in this area. Given the importance of manufacturing to Ireland, there is potential to strengthen Ireland's attractiveness for mobile investment in engineering, machinery/equipment and tool making.

Ireland benefits from its strong relationship with the US and continues to be successful in attracting mobile investments from the States. Ireland's trade strategy highlights the potential to grow Ireland's share of investments coming to Europe from a broader range of source markets<sup>10</sup>.

### The contribution of FDI to the Irish economy

It is important to acknowledge the portfolio of benefits that FDI contributes to the Irish economy. FDI continues to be a driver of economic growth and job creation, both directly and indirectly, despite the challenging general economic conditions in more recent years.

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<sup>7</sup> *Global Investment Trends Monitor*, No. 15, 28 Jan 2014, UNCTAD

<sup>8</sup> Based on analysis of mobile investments into Europe over the 2008-2012 period

<sup>9</sup> Narrowly defined (excludes power generation)

<sup>10</sup> Progress is being made towards the target of 20 percent of greenfield FDI from high growth and emerging markets set out in *Trading and Investing in a Smart Economy*. Available at: [http://www.djei.ie/trade/bilateral/Strategy\\_and\\_Action\\_Plan\\_to\\_2015.pdf](http://www.djei.ie/trade/bilateral/Strategy_and_Action_Plan_to_2015.pdf)



- The 3,300 foreign owned firms<sup>11</sup> based in Ireland employ approximately a quarter of a million people directly;
- Agency supported<sup>12</sup> foreign owned companies:
  - directly employed 172,326, and a further estimated 124,000 indirectly in 2013;
  - contributed 72 percent to total corporation tax revenues in 2012;
  - spent €13.2 billion on materials and services sourced in Ireland (2012); and
  - invested just under €1.4 billion in R&D (2012) equating to over 70 percent of all business expenditure on R&D<sup>13</sup>.

Foreign owned firms also contribute in terms of knowledge transfer, enhanced productivity, higher order skills and management capability, and provide a platform for entrepreneurship. A significant amount of investments emanate from the existing base of agency assisted foreign owned entities. In 2013, out of 164 investments overall, 52 percent were made by foreign entities already established here. In the previous year, 55 percent of investments emanated from existing foreign owned firms. This underlines the important role of after-care in investment promotion, and the importance of IDA Ireland's focus on company transformation which is embedded in IDA Ireland's *Horizon 2020* strategy.

Nevertheless the Forfás analysis highlights some policy implications – particularly with regard to source markets and sectoral diversity. A genuine challenge is posed for Ireland to achieve a balance between focusing on specialisation and building on strengths while at the same time ensuring a degree of resilience given that much of what happens in the external global environment is outside of our control.

Other questions arise as to what policy approaches are needed to further develop inter-firm linkages with Irish owned entities, optimise the potential arising from different modes and forms of FDI, and FDI's contribution to job creation and regional development.

## FDI policy approaches internationally

A review of international FDI policy approaches has highlighted a number of themes that have informed this Policy Statement.

Effective policy execution is a critical differentiator in boosting FDI performance. In a number of countries and regions, there is a strong focus on a unified effort across the government system to develop strategic areas of focus, along with high level political capital, and effective coordination to deliver on clear objectives.

A general trend in the governance of FDI promotion activities internationally has been the closer integration of FDI promotional activities with export and trade promotion. While there is no consensus as to which is the optimal governance model, closer collaboration and coordination between relevant agencies can deliver increased economic benefits overall.

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<sup>11</sup> About 1,100 firms are supported by IDA Ireland. Others primarily service the domestic economy and are involved in activities such as retail, business services, telecoms, natural resources etc.

<sup>12</sup> Data source: *Annual Employment Survey 2013* and *Annual Business Survey of Economic Impact 2012*, Forfás, 2014

<sup>13</sup> R&D expenditure figures are based on a survey that includes both agency and non-agency supported firms; *Business Expenditure on Research and Development (BERD) 2011/2012*, Forfás & CSO, 2013

All case study locations reviewed targeted a narrow number of sectors and/or niche activities/functions for FDI attraction, leveraging particular competitive advantages of their location (including national/regional innovation systems). A focus on cluster formation and sectoral ecosystem development driven by strong leadership was also strongly in evidence.

Across all of the case studies analysed, the role of partners within the innovation system is a recurring theme, particularly in a sectoral ecosystem development context.

Ireland compares favourably with case study locations, but the analysis points to intensified efforts across all dimensions if we are to remain competitive. It is evident that standing still is not an option.

### Investment promotion agency (IPA) approaches

In the context of greater competition for investment, more sophisticated and forensic lead generation and client engagement processes are being deployed by IPAs internationally. Increasingly, IPAs are seeking to engage with companies at an earlier stage in the location selection process, and sometimes seek to influence the shape of their overseas investment strategy, supported by strong technically rich value propositions. In some cases they are also increasingly working with professional third-parties in promotional activities internationally.

IDA Ireland is a very strong international brand and the agency is highly regarded internationally for its investment promotion and aftercare capability and success. Investment promotion requires working closely with relevant stakeholders. In Ireland's case this includes the Department of Jobs, Enterprise and Innovation (DJEI), Enterprise Ireland, Science Foundation Ireland, Department of Foreign Affairs and Trade, Department of Justice & Equality, Department of Tourism, Transport & Sport, Tourism Ireland, Department of Environment and Local Government, Department of Education and Skills, Department of Agriculture, Food and the Marine and its agencies, and a range of other Departments and agencies.

## Ireland's FDI policy to 2020

### FDI policy framework

Based on the analysis of global FDI trends, international policy approaches, the contribution of FDI to the Irish economy, and our understanding of the needs of global businesses, the key policy imperatives for Ireland are to:

- maintain Ireland's strong performance in the context of intensifying competition globally for investment and talent;
- build a sustainable and diverse FDI portfolio in terms of sectors and activities and source markets;
- meet the ecosystem requirements of globalised multinationals and the mobile young economy;
- derive the optimum economic returns for Ireland across a variety of cross-border modes of investment, including greenfield projects, reinvestment, start-ups and M&A; and
- deploy international best practice in policy execution and gain system wide engagement from relevant partners in policy implementation and investment promotion.

The Government will intensify its efforts to nurture and develop those areas that will genuinely differentiate Ireland’s offering, and specifically:

1. **Talent:** Ireland as an internationally competitive location for talent attraction and growth.
2. **Place-making:** to create competitive, dynamic and globally connected city regions as attractors of investment, and position Dublin as the leading European hotbed for start-ups, fast growing firms and talent.
3. **Connected world leading research:** Ireland recognised as one of the most enterprise aligned science, technology & innovation systems in the world, renowned for excellence in research, connecting and collaborating with enterprise, delivering sustainable economic impact, and attracting investment and exceptional talent.

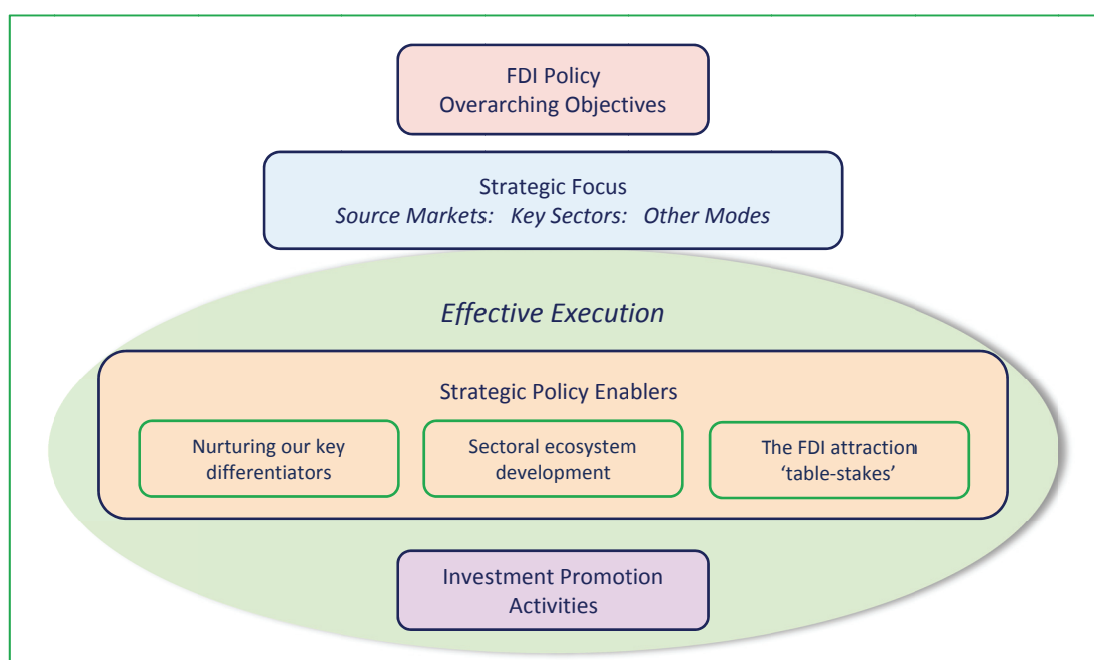
Ireland will also strengthen its approach to **sectoral ecosystem development**, drawing from international best practice to support accelerated development of sectors and activities (including foreign and Irish firms) in the Irish economy for the longer term.

At the same time, there is a need to ensure that Ireland remains competitively positioned in terms of the more fundamental **‘table stakes’**, and address the pressing issues facing Ireland in terms of costs (incl. energy costs), fiscal regime, and continued investment in national and regional infrastructures etc.<sup>14</sup>.

Acknowledging that FDI policy is about much more than getting the promotional aspects right, the following sections set out Ireland’s:

- FDI policy overarching objectives to 2020;
- Strategic focus – sectors, markets and modes of FDI; and
- Strategic policy enablers.

**Figure (a) Ireland’s FDI Policy Framework**



<sup>14</sup> ‘table-stakes’ refer to minimum prerequisites to attract FDI

## Ireland's FDI policy objectives

In summary, Ireland's overarching FDI policy objectives to 2020 are to:

1. Further expand and develop export oriented FDI that will:
  - deliver sustainable job creation and wealth creation;
  - contribute to enhanced productivity and value added;
  - develop Ireland's capabilities and critical mass in key sectors and self-sustaining ecosystems;
  - enhance Ireland's innovative capabilities;
  - contribute through direct economy expenditures to indirect job creation in the domestic economy;
  - enable access to global value chains for Irish owned companies; and
  - optimise the potential contribution of FDI to regional economic development as part of cohesive regional spatial and economic strategies.

And to:

2. Identify and promote (as appropriate) opportunities where FDI can help to boost productivity, address strategic business environment gaps in the domestic economy and/or contribute to addressing national challenges.

Ireland's FDI policy has traditionally focused State interventions and promotional activity to attract foreign owned firms that are export oriented, developing new sectors and activities in high growth areas and creating high quality jobs, thereby avoiding displacement effects elsewhere amongst domestically focused economic activities. This will continue to be the primary focus<sup>15</sup>.

At the same time, there is a need to continue to exploit the potential of inward investment and knowledge transfer as a means to address specific gaps in the Irish business environment in areas such as infrastructure, property, energy provision, growth capital, technology and/or supply chain gaps. In addition, FDI can make a useful contribution to resolving Ireland's national challenges, for example, in healthcare, education provision, or environmental/climate change. This is likely to represent a relatively small (albeit strategically important) cohort. On a case by case basis this would mean more active engagement with foreign firms whose primary interest in locating here is to access the domestic market. Such engagement would include sign-posting/landing services and referral, exploring supply-chain opportunities, exploring potential for additional functions including shared services or headquarter operations, and identifying and facilitating R&D linkages.

FDI has a role to play in regional economic development but it cannot of itself be *the* regional economic development strategy. Sustainable economic growth and job creation in Ireland's regions will come from a broad base of economic activity and it is critical that potential strengths and assets are recognised and supported across a range of possible sources. The attraction of FDI to regional locations (i.e. outside of Dublin and Cork), its retention and further development, will be aided by focused

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<sup>15</sup> As an open pro-business economy, Ireland aims to remain attractive to foreign investment in all sectors of the economy that deliver to the domestic market, including for example retail, business and banking services, hospital, telecoms and energy without the need for direct intervention

sectoral ecosystem development with a national and regional perspective and effective place-making policies<sup>16</sup>.

## Employment potential

The *Medium Term Economic Review 2020* (MTES 2020) has set an overall target to have 2.1 million people in employment by 2020, which as of the end of 2013, requires an increase of approximately 200,000 net new jobs. FDI has an important role to play in delivering on this target, but it will be challenging in the context of an uncertain external environment, intensified global competition and relative cost competitiveness. Sustaining the levels of growth delivered by agency supported foreign companies over the past three years averaging over 6,000 net new jobs per annum (together with associated indirect jobs) as well as the additional that can be achieved on foot of the *Winning Abroad* initiative<sup>17</sup>, will require that Ireland delivers on the actions set out in this Policy Statement.

Intensified competition and the role that global cities of scale play in attracting mobile investment and talent heighten the challenge to deliver to the regions. The development of the Regional Spatial and Economic Strategies (RSES) and investment in regional place-making are crucial in differentiating Ireland's offering. The new IDA strategy will set out specific regional FDI employment creation targets.

Under a scenario of accelerated investment and focus it should be possible to exceed current performance and to deliver on potential across all regions in Ireland.

## Strategic focus – sectors & activities, markets and modes of FDI

In brief Ireland's FDI strategic focus to 2020 will be based on:

- Building on existing strengths in sectors, activities and markets to realise growth potential;
- Positioning Ireland to exploit new areas of opportunity; and
- Facilitating different modes of investment to optimise economic impact.

The following sections set out the specific focus and the actions needed in terms of sectors and activities; geographic markets; and modes of investment to deliver on the above strategic elements.

### Sectors and activities

Ireland will continue to be successful in attracting FDI and in building sustainable sectors (and subsectors) by maintaining a focus on the further expansion and transformation of our top performing sectors and activities, and enhancing resilience in the context of any external shocks. This will involve transforming the existing base of well-established sectors, through enhanced productivity and innovation and expanding strategic corporate mandates; looking for completely new opportunity areas; and enhancing our performance in areas where Ireland has a small foot-hold currently.

#### Building on our strengths

Our current FDI promotion focus in terms of sectors and activities is broadly well placed and benefits from agglomeration economies and track record in key sectors. Ireland has had success in attracting FDI in Life Sciences, ICT, International Financial Services, Content & Consumer Business Services and

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<sup>16</sup> Preferential State Aid for investments in regional locations has become increasingly restricted under EU State Aid modernisation

<sup>17</sup> *Action Plan for Jobs 2014*, Disruptive Reform 2.2, Department of the Taoiseach, 2014

Engineering and mobile projects from Irish food multinationals. Ireland has attracted investments in activities across value-chains, including Headquarters, Shared Services/Global Business Centres, Customer Contact/Technical Support, Research & Development. More recently a focus on emerging businesses and mobile entrepreneurs has started to yield results. This focus is also reflected in the Government's recently published MTES 2020<sup>18</sup>.

This group of sectors and activities will likely generate the higher proportion of employment over the coming years to deliver to the ambition set out in the MTES. As these sectors continue to evolve, opportunities will arise in 'new' market segments (e.g. smart ageing, sport and nutrition, smart grids etc.), sub sectors (therapeutics, novel materials, middleware, orthopaedics etc.) and at the blurring edges of existing sectors as convergence continues apace (e.g. nutraceuticals, digital content etc.)<sup>19</sup>. In this context, IDA Ireland remains closely connected with companies, undertakes regular reviews of emerging corporate behaviours and sectoral developments to identify and target new high growth sub-sectoral opportunities within these broad sectors.

An informed, dynamic and flexible approach is essential in order to keep abreast of each sector's evolution and future trends and to regularly refresh sector specific propositions for particular geographic markets. In Ireland's case, there is scope to enhance the existing approach, intensifying the agencies' current level of market/sector assessment activity.

The enterprise development agencies have each developed a network of overseas offices and resources, partnerships and relationships. Although the agencies operate to different remits in-market, more could be done to leverage the collective expertise and knowledge housed within each agency. For the future, a well-structured approach is essential that garners, assimilates and disseminates pertinent market intelligence *across* the agencies to help identify potential opportunities for Ireland and to inform sectoral ecosystem development.

As new areas are identified by the development agencies it is critical that any anticipated ecosystem adjustments are communicated to DJEI and across the policy system as early as possible so that appropriate action can be taken to strengthen Ireland's value proposition.

Research investment in areas such as Big Data/data analytics, smart grids, smart cities, smart ageing, therapeutics, food for health etc. will underpin next generation FDI in sectors where Ireland currently has strengths and capabilities. We aim to market and fully leverage the State's investment in research priority areas as a core element of our FDI eco-system supporting today's globalised businesses<sup>20</sup>.

### Positioning for new opportunities

The analysis of Ireland's performance in the context of FDI projects attracted to Europe has highlighted some areas where we have the potential to compete for more activity.

The food sector makes a major contribution to Ireland's economy in terms of exports and employment both directly and indirectly. A number of Irish owned firms are among the world's 50 largest food & beverage multinationals. Enterprise Ireland is responsible for the attraction of FDI in food and working with food companies as they develop their activities in Ireland, and has competed effectively to win major mobile investments from some of these firms (e.g. Kerry Group & Glanbia) in recent months.

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<sup>18</sup> MTES 2020 reflects the importance of export led growth and the key sectors and activities likely to deliver to achieving export potential, available at: <http://mtes2020.finance.gov.ie/>

<sup>19</sup> The Government is currently advancing a range of policy initiatives to drive business opportunities around Big Data under the *Action Plan for Jobs*

<sup>20</sup> *The Report of the Research Prioritisation Steering Group*, Forfás, DJEI, 2012, set out the research priority areas in which there is a large global market in which Irish-based enterprises already compete or can realistically compete

With Ireland's strong ecosystem offering and natural advantages, a high quality reputation in sustainable production and food science expertise, and with a significant expansion of farm level dairy production of up to 50 percent by 2020, Ireland has potential to attract additional FDI investment in food processing.

The clean technologies sector also offers ongoing potential for Ireland. The clean tech space (i.e. excluding power generation) offers potential for Ireland based on FDI activity levels in a European context in this sector. In addition, another area which offers potential, in supporting the existing manufacturing base and employment, is in machinery and equipment/tool making<sup>21</sup>.

IDA Ireland is currently assessing potential in new areas of opportunity that are not actively being pursued at present. This includes new export oriented activities which may be a good fit for Ireland, as well as strategically important domestically oriented investment opportunities that will contribute to Ireland's future economic development that may be of interest to overseas investors (via sovereign wealth funds, high net worth individuals, investment houses etc.).

### **Strategic Action 1 - Sectors and activities - building on our strengths & positioning for new opportunities**

- Build on Ireland's FDI strengths in sectors and activities, supported by national level sector strategies, continued focus on company transformation, and enhanced levels of cross-agency information and market intelligence sharing so that opportunities within and across these sectors are identified at an early stage.
- Target increased levels of FDI from firms addressing the Food and Beverage markets including ingredients, consumer foods, nutrition and nutraceuticals, and work with firms already established here to broaden their corporate mandates, including RD&I and HQs.
- Target FDI that can commercialise and exploit in Ireland those areas prioritised for research investment.
- Seek out new FDI opportunities for Ireland - that will emerge from niche areas and new market segments where we have little activity currently, and/or where FDI can address business environment gaps, further strengthen the manufacturing ecosystem, promote increased productivity, and stimulate innovation in the Irish economy.

## **Source markets (geographic)**

Ireland has been very successful in its established source markets for FDI. US owned multinational entities now account for almost 70 percent of the total employed directly in agency supported foreign owned firms in Ireland. Maintaining this level of performance is of crucial strategic importance to Ireland's economy.

Of the top seven source locations for outward investment projects, of US, Japan, Germany, France, UK, China and India, Ireland's relative performance in a European context is strongest in relation to US investment, but significantly less so in terms of share of outward projects from Japan, China and India where there has been a substantial volume of FDI projects globally and into Europe over the 2008-2012 period. Ireland will continue to build diversity across a range of source markets while continuing to nurture its relationship with established sources.

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<sup>21</sup> *Making it in Ireland: Manufacturing 2020*, Forfás, 2013

The cultural differences, different ways of working, and nascent business or political relationships in some of these less established markets increases the challenge for Ireland – and perhaps even more so in the context of constrained resources in-market. A critical requirement is a sustained commitment to high level political engagement and Economic Partnership building. The new tiered market development approach as set out in the recent *Review of the Trade, Tourism and Investment Strategy*<sup>22</sup> provides the framework through which State resources can be deployed in an optimal manner<sup>23</sup>.

While investment from emerging markets into Ireland is growing, and given the long lead-time involved, there is a need to consider alternative strategies; in terms of promotional activities, how agencies and Departments collaborate in-market, and what policies and actions can be taken to make the business environment in Ireland more attractive for the firms and individuals who may locate here. The Joint Economic Commissions (JEC) in place, for example with the Republic of Korea, Saudi Arabia and China, provide a basis for detailed and focused interactions with these countries on trade and investment. This ongoing dialogue is of crucial importance in strengthening bilateral economic relations over the longer term.

Forfás analysis for this Policy Statement has highlighted shifting corporate behaviours in relation to global footprint optimisation, including re-shoring and next-shoring<sup>24</sup>. It is important that Ireland is strategically positioned to take advantage of opportunities in these emerging areas.

### Strategic Action 2 – Source markets

In terms of geographic market focus:

- Strengthen our relationship with the US as our principal source market, both for new business and reinvestment opportunities and capture emerging opportunities in European markets.
- Further diversify Ireland's FDI portfolio, tapping into sectoral opportunities arising from high-growth, emerging and exploratory markets based on the tiered approach set out in the *Review of the Trade, Tourism and Investment Strategy 2010-2015*.
- Position Ireland to take advantage of emerging opportunities arising from re-shoring/next-shoring corporate strategies of foreign and indigenous multinationals.
- Continue to monitor developments in relation to international trade negotiations such as the Transatlantic Trade and Investment Partnership (TTIP) and ensure that Ireland is positioned to take advantage of potential FDI related opportunities arising.

## Facilitating different modes of investment

International capital flows and investment can take many forms depending on the context and motivations behind investment decisions by firms and/or investment houses, sovereign wealth funds (SWFs) etc. The analysis for this Policy Statement has shown that in an ever more competitive global economy, the motives for FDI are increasingly based on seeking strategic assets and capabilities. This has led to modes of investment which include direct investments, mergers and acquisitions (M&A), partnerships with research and higher education institutions and indirect investments through SWFs, other venture and development funds, and state owned enterprises (SOEs).

<sup>22</sup> *Review of the Trade, Tourism and Investment Strategy*, Department of Foreign Affairs & Trade, 2013

<sup>23</sup> IDA Ireland has recently appointed additional resources for in-market promotion and lead generation

<sup>24</sup> 'Next shoring' has been coined by McKinsey as a new focus by manufacturing firms to base location decisions on proximity to both demand and innovation, *Next-shoring: a CEO's guide*; George, K.; Ramaswamy, S. and Rasse, Lou., McKinsey Quarterly, January 2014.



Firms looking to expand into European markets may search for suitable acquisition targets or partners to help bolster market position at home and overseas rather than undertaking a greenfield investment. For Irish owned firms the optimal route to scale and sustainable growth may be to be acquired. Both have the potential to deliver positive outcomes for the Irish economy if it results in an expansion of activity in Ireland.

M&A, business partnerships, joint ventures etc., are increasingly part of international business expansion and investment and can have positive benefits for Ireland. As an open economy, and from a policy perspective, it is important that the business environment in Ireland is conducive to attracting a range of investment modes and maximising their economic impact for Ireland<sup>25</sup>.

International SWFs are also active in international business, in equity participation, asset purchase and/or outward investments by state-owned/state-backed enterprises. To date, such investments have been leveraged to a relatively small degree in Ireland in the context of alternative (non-bank) sources of financing for business investment, infrastructure development and other purposes<sup>26</sup>. In the context of substantial expansion of such funds and their increased propensity to make investments overseas, it is important that Ireland continues to explore potential opportunities for investment partners through this avenue<sup>27</sup>. Ireland has demonstrated its attractiveness for the management of Europe Middle East & Asia (EMEA) activities for the largest MNCs in the world and many of the elements are similarly relevant for SWFs and SOEs establishing a presence in EMEA markets.

### Strategic Action 3 – Different modes of investment

- We will ensure that Ireland continues to provide an open and attractive environment for the full range of alternative modes of inward investment that can deliver net economic benefits for Ireland, including job creation, new investment, innovation, productivity and scale.

## Nurturing our key differentiators

There is a range of fundamental factors that are prerequisites to place any country in the running in an analysis of a location's suitability for investment – including, for example, taxation system (rate and regime), access to markets and costs base. In the face of intensified competition – where many countries meet the basic requirements - the challenge for Ireland is to recognise and nurture the factors that can truly differentiate our offering and add longer-term value and to help to de-risk investments for the prospective investor.

We have taken significant policy initiatives in the past that have proven to be game-changers in the context of our attractiveness for FDI. It is timely now to reassess what can genuinely distinguish Ireland as the best place from which to do business – a differentiated value proposition that will further embed existing FDI, drive exceptional business performance, and secure new investments into the future.

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<sup>25</sup> It is not evident that the State should have a direct role in M&A transactions where there is no clear market failure as such (indeed, in some cases it would be inappropriate where the State has a shareholding e.g. through EI)

<sup>26</sup> For example, the recently launched Summit Bridge Capital is a \$100 million joint-venture investment fund between Ireland and China, part financed by the National Pension Reserve Fund (NPRF) and the China Investment Corporation (CIC) one of the largest Sovereign Wealth Funds in the world. It expects to take minority stakes in up to 15 established Irish technology companies over the next 3-5 years

<sup>27</sup> The Ireland Strategic Investment Fund (ISIF) is of relevance in this regard

There are three areas where Ireland will differentiate itself for competitive advantage for the future:

**1. Talent: *An internationally competitive location for talent attraction and growth***

Ireland will be distinguished internationally not only by having a sustainable supply of world class core competences, but also by the higher order abilities of its workforce and graduate output - in terms of problem-solving, creativity, design-thinking, and adaptability. Ireland will be renowned for developing and nurturing talent, and will be an attractive destination for internationally mobile highly skilled people.

**2. Place-making: *Creating competitive, dynamic and globally connected city regions as attractors of investment, and positioning Dublin as the leading European hotbed for start-ups, fast growing firms and talent***

Ireland will deliver a choice of attractive city region locations for investment and will be a leading proponent of urban design and place-making enabling business and lifestyle opportunities. It will also deliver a vibrant capital city with a smart business and living environment hosting a diverse and busy start-up community as well as corporate heavyweights.

**3. Connected world leading research: *Ireland, one of the most enterprise-aligned science, technology & innovation systems in the world***

Ireland's national innovation system will be globally renowned for its alignment with industry, excellence in research, connecting and collaborating with enterprise, delivering sustainable economic impact, and attracting investment and exceptional talent. A number of research centres in Ireland will be achieving and consistently maintaining world leading positions in key disciplines, acting as beacons for Ireland attracting prospective FDI, and providing a capacity for applied research for firms in developing products and services for markets.

## Talent

Investment in education in the 1960s had a major impact on Ireland's social and economic development. It also created a unique selling point and legacy for Ireland in the FDI marketplace over many decades. It is critical that we continue to nurture talent to meet the needs of an advanced economy, including FDI, entrepreneurship, innovation etc. From an FDI perspective, it is imperative that Ireland can continue to support substantive operations here that include value creation, decision making/risk, and strategic control, all of which require highly talented individuals, and teams with high level responsibilities.

Nurturing the talent pool in Ireland means being able to develop, attract and retain the talent required. Effective monitoring of supply and demand for specific skills in the economy and responding appropriately is a critical aspect. For example, the recently launched *ICT Skills Action Plan* aims to address forecast industry demand for high-level ICT skills over the period to 2018<sup>28</sup>. Implementation of the Government's structural reforms across higher education and the further education and training sector will help to ensure continued alignment of the education system with the needs of enterprise. The forthcoming review of the National Skills Strategy is an opportunity to comprehensively assess skills needs and provision at a national level and respond accordingly.

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<sup>28</sup> The *ICT Skills Action Plan 2014-2018* is available at [http://www.heai.ie/sites/default/files/action\\_plan\\_ict\\_2014\\_4final\\_spr.pdf](http://www.heai.ie/sites/default/files/action_plan_ict_2014_4final_spr.pdf). The Expert Group on Future Skills Needs continues to advise the Government on the skills needs and labour market issues across the economy at national and sector-specific level, <http://www.skillsireland.ie>

It is important that we continue to nurture and reinforce higher-order skills and capabilities across all levels of education, including creativity, problem-solving, design-thinking, adaptability – traits for which people educated in Ireland have gained a strong reputation internationally. In addition, the attraction and retention of talented people broadens the policy focus on talent to considerations about quality of life, effective place-making, ease of mobility, cost of living and personal taxation<sup>29</sup>.

The current FDI marketing proposition for Ireland continues to place people capabilities centre stage. Today the competition for talent is global, and talent itself is increasingly mobile. Ireland needs to be at the fore in ensuring that talent will be continuously reinforced as a key differentiator. There are a number of dimensions to the challenge, and we cannot afford to be complacent on any aspect.

#### Strategic Action 4 – Nurturing our key differentiators – talent

- Develop and implement a **National Talent Drive** that reinforces Ireland’s positive reputation globally for the quality of its people and clearly establishes Ireland as a hub for talent. The new National Skills Strategy will play a central role alongside a broader range of policy imperatives in relation to the attraction and retention of talented people:
  - human capital development – including ensuring that the education system as a whole is delivering to specific skills demand in the economy, nurturing higher-order skills across all levels of education, and implementation of structural reforms in higher & further education and training sector and apprenticeships; and
  - broader factors that will attract and retain mobile talent – incl. personal taxation, visas, work permits, cost of living and place-making aspects including further enhancement of Dublin’s attractiveness internationally as a dynamic, innovative and entrepreneurial talent hub.

## Place-making – a national agenda

Global FDI trends indicate that increasingly city regions of scale are the focal points for internationally mobile investment. The recent statistics in relation to FDI in Ireland confirm this pattern, with a growing number of investments attracted to the capital city and the larger population centres.

Place-making involves the full range of actors and contributors ranging from local authorities and urban planners, architects & engineers, businesses, infrastructure agencies, transport operators and the construction sector, to create conducive and attractive locations for investment and for people to live and work. The actions that contribute to place-making also contribute to tourism competitiveness, complementing the economic impact of FDI<sup>30</sup>. This section considers the importance of place-making in a regional context in the first instance and then discusses the importance of Dublin as Ireland’s capital city that is recognised in international markets.

### Place-making in Ireland’s regions

Ireland’s regions continue to have a strong value proposition for FDI, particularly where there is good inter-urban road access and/or international connectivity, specific sectoral ecosystem strengths and site

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<sup>29</sup> The Department of Finance is currently analysing the results of a recent review of the scheme for the Special Assignee Relief Programme (SARP)

<sup>30</sup> *City Beautiful*, Carlino, Gerald A. and Saiz, Albert, IZA Discussion Paper No. 3778, available at: <http://ssrn.com/abstract=1293550>

condition requirements. State Aid restrictions for large firms in particular mean that we need to ensure that regional disparities are redressed through place-making investment<sup>31</sup>.

There is a strong interdependency between the planning, development and creation of an attractive environment and enterprise development. Strategic investments and actions focused on maximising the competitive advantages and potential within the regions are key to ensuring they can make the maximum contribution to Ireland's future national growth and maintain a high standard of living. Some of that potential will be associated with FDI opportunities. The Department of Public Expenditure and Reform is undertaking a review of capital expenditure priorities for the period 2015-2019. Capital investments need to be prioritised to underpin the development and growth of Ireland's productive sectors and place-making objectives, and all potential funding options should be considered.

The Regional Spatial and Economic Strategies (RSEs) envisaged under the Local Government Reform Act 2014, incorporating effective urban place-making and design, will consider where potential best lies. The RSEs will enable the right actions to be taken both nationally and regionally to support FDI potential, addressing infrastructure and other ecosystem priorities. It is important that sectoral expertise within the enterprise agencies (including sectoral agencies e.g. in tourism, film, food, marine) is brought to bear in the context of preparing the RSEs. The new approach to sectoral ecosystem development at the national level set out below will have a spatial dimension that should inform these regional strategies<sup>32</sup>.

In the immediate term, the cross-agency Regional Enterprise Development Frameworks (REDFs) being prepared under the aegis of DJEI will set out regional enterprise strengths, and the associated investment needs and collaborative agency actions to achieve their potential. The REDFs will provide strong direction in the preparation of RSEs.

### Place-making – Ireland's capital city

Over time, the attractiveness of Dublin has emerged as a key determinant in Ireland's overall FDI performance. The dynamic Dublin city region attracts more new investments than the rest of the country, and is particularly important as a host for fast growing emerging companies. Dublin is competing directly with major cities in Europe and beyond for these investments, as more and more the locus of competition for FDI is amongst global cities rather than countries. Dublin as Ireland's capital and main national access point is a key attractiveness factor for any ultimate location in Ireland.

Relative to other city regions in Europe and elsewhere, Dublin is small. But its relative size has proven to be one of its distinct advantages and a differentiating aspect internationally. Dublin has become a magnet for fast growing young internationally mobile companies, entrepreneurs and talent, drawn to a city that can provide a unique business and living experience. There is a strong organic dimension to this – in that it has not been overly planned. For the future, due attention and planning is essential to sustain the dynamic which has grown in recent years. There are many alternative locations globally vying for the attention of mobile talent and investment.

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<sup>31</sup> Under the revised Regional Aid Guidelines to cover the period 2014-2020, Ireland secured entitlement to maintain regional aid qualification for areas accounting for 50 percent of the country's population, with coverage slightly increasing to 51.28 percent and including some specific locations within non qualifying areas. Aid intensity has been retained at the same level, including 10 percent for large enterprises (which was strongly defended during the negotiations)

<sup>32</sup> It is important to be aware that regions (at NUTS III level or the new regional structures to be established under the Local Government Reform Act 2014) are not necessarily independently viable economic entities in their own right and should not be seen in isolation from each other despite the application of necessary administrative boundaries. NUTS III includes Midlands, Border, South East, South West, West, Mid West, and East (Mid East & Dublin)

Reinforcing a supportive start-up ecosystem in Dublin is critical both for the attraction of overseas entrepreneurs and emerging companies *as well as* home grown start-ups. A dynamic start-up community is an attractiveness factor for FDI generally.

### Strategic Action 5 – Nurturing our key differentiators - place-making – a national agenda

Continue to reinforce a range of attractive place alternatives for mobile investment and talent:

- Ensure that our city regions provide a credible proposition in a globally competitive context, leveraging regionally based assets and potential; supported by:
  - Cross agency Regional Enterprise Development Frameworks for each of the NUTS III regions, which will set out regional enterprise strengths and investment needs to achieve their potential. These will provide strong direction in the preparation of RSEs under the Local Government Reform Act 2014 and the National Spatial Strategy.
- Address priority place-specific infrastructure deficits that are impacting negatively on the attractiveness of our city regions for enterprise investment, through orienting the Public Capital Programme toward investments that support business needs, progressing the development of an urban regeneration investment strategy, and targeting European investment/development funding over the 2014-2020 period.
- Further enhance the Dublin City Region - as a place to live, invest, grow a business, and nurture innovation:
  - Instigate a coordinated, partnership approach to forward planning and facilitation of Dublin's start-up ecosystem, taking into account the various dimensions that include: quality of life & culture, intra-city connectivity, welcome/landing services, events, workspaces, and the dynamic established through the *Activating Dublin* initiative, and maximising potential synergies with the recent Collective Strategy for Tourism Growth to 2020, *Destination Dublin*.
  - Identify and progress a high profile 'Smart City' test-bed project for Dublin in partnership with the private sector (including Irish owned enterprises) and promoted to foreign multinationals in Ireland and overseas.
  - The new National Spatial Strategy should explicitly set out an urban policy for Ireland that prioritises accelerated investment in Dublin in the context of a long-term development plan for the City Region.

Refer also to strategic action 12 – property solutions in key regional locations

## Connected world leading research

Increasingly, FDI is driven by strategic asset seeking motives, as multinationals seek competitive advantage in global markets. A dynamic innovation system can play a significant role in investment decisions and the long-term sustainability of FDI in the host country. A review of FDI policy approaches in other countries demonstrated the centrality of the national innovation system.

The past decade has been one of radical transformation in terms of Ireland's science and technology base. We have made substantial progress in building competent and internationally credible research and technology centres that are punching above their weight, through the investments of Science Foundation Ireland, Enterprise Ireland, the Higher Education Authority and others. In a short space of time, Irish academic researchers have ascended to world leading positions in a number of fields of

scientific research<sup>33</sup>. Our State funded researchers and research centres have developed strong relationships and partnerships with multinational enterprises based here and overseas.

In many instances, Science Foundation Ireland and higher education institutes (working with IDA Ireland) play a key role in brokering early engagement with the Irish based research community as part of the location consideration process. Science Foundation Ireland estimates that in 2013, 72 percent of jobs announced by IDA Ireland had a prior collaboration with a Science Foundation Ireland funded research group<sup>34</sup>. State investment in research and technology centres can play even stronger roles within sectoral ecosystems.

Ireland has both achieved and learned much from the roll out of the first *Strategy for Science Technology and Innovation 2006-2013*. The *Research Prioritisation Exercise* (RPE) marks another stage in the process and provides a framework that will help to deliver research excellence as well as impact.

Further steps will be taken in the context of an overall roadmap for the coming decade. This includes making choices about consolidation to build scale and world leading capabilities, and ensuring there is capacity for applied research to support enterprises delivering innovative products and services for world markets. We cannot be world leading in all areas, but there is potential to build and reinforce national beacons of deep research excellence, with international repute, and industry relevance, building on the State and enterprise investments to date. These can be true differentiators for Ireland both for firms operating in these areas as well as creating reputational spin-offs that will result in further investment and economic activity.

### Strategic Action 6 – Nurturing our key differentiators - connected world leading research

- Reinforce enterprise-aligned scientific excellence with impact in line with the Research Prioritisation Exercise providing research and knowledge for enterprises of today and opening future opportunities for investment.
- Set out the strategic direction for our Science Technology and Innovation policy to 2020, to include ambitious targets to grow a defined number of national research centres that will conduct world leading research of relevance to key growth sectors in Ireland.

## Sector ecosystem development

### Sectors and activities

Forfás analysis for this Policy Statement has shown that other countries that are successful FDI locations are also those that have very strong sectoral ecosystem and clustering policies and supporting governance structures that embrace the entirety of the enterprise base.

Ireland has over recent decades had success in focusing on certain areas and activities and developing competitive offerings in new and emerging areas, such as shared services, financial services, software and more recently in digital content and social media. While we have seen the co-location of companies in Ireland in a range of sectors and activities, presence on its own will not realise the synergies and

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<sup>33</sup> For example, based on analysis of the benchmark Thomson Reuters Web of Science in 2010, the Life Sciences journal *Lab Times* ranked Ireland No.1 in the world for the quality of its Molecular Genetics & Genomics research, and No. 3 and No.8 in the fields of Immunology and Materials Science (SFI is currently undertaking an assessment of similar data to ascertain Ireland's current position)

<sup>34</sup> Science Foundation Ireland end of year statement 2013

additional economic impact that is possible. Effective networks, linkages, and clustering initiatives will be increasingly important to 2020, to ensure competitive and innovative eco-systems for target areas.

As sectors and the ways of doing global business are continuously evolving apace we need to facilitate the development of a business environment that can anticipate and respond to the changing needs of enterprise. This changing landscape means that there is increased interdependency between the mandates/activities of the enterprise development agencies (including IDA Ireland, Enterprise Ireland and Science Foundation Ireland)<sup>35</sup>.

Responsibility for sector development resides with the enterprise development agencies, other government departments, and agencies outside of the remit of DJEI. Some have direct responsibility for the development of some sectors (e.g. film, tourism), while for others responsibility crosses a number of different departments (e.g. green technologies, marine, food).

In order to maximise the potential and cohesion amongst key players, DJEI will strengthen mechanisms by which we can maintain a strategic and dynamic policy focus on the developmental needs of our key sectors, setting Ireland's approach to sector clustering and ecosystem development on a firmer footing.

The policy objectives are to:

- pump-prime self-sustaining, innovative clusters and ecosystems in priority areas;
- ensure proactive, joined-up approaches to identify and address ecosystem needs;
- ensure that those unemployed are reskilled and trained as appropriate in areas of relevance to sectoral needs<sup>36</sup>;
- ensure the full realisation of potential investment opportunities;
- target investment promotion to capture specific activities of strategic importance to the sustainability and growth of the clusters; and
- optimise inter-firm connections and progress the cross agency *Global Sourcing* initiative.

The development of *Food Harvest 2020* for the agri-food sector, and its implementation, is one such mechanism. While recognising that it is not simply a question of 'translating' one model to a different sector, the challenge is to achieve a similar level of elevation and commitment within the broad policy system for other key sectors.

#### Strategic Action 7 – Sector ecosystem development

- Build globally competitive clusters and ecosystems for key sectors, combining strong Irish owned and foreign firm activity, sub-supply, research and supportive regulation etc., and specifically implement a more intensive and systematic approach to develop dynamic national sector strategies, involving the full range of stakeholders across the system, and including the appointment of a sector specific Cluster Development Manager/Team to drive the initiative across the system.

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<sup>35</sup> As evidenced, for example, in the case of Food FDI, M&A and JVs, mobile international entrepreneurs, trade and investment (joint trade missions, pavilions), and research prioritisation

<sup>36</sup> This will continue to be a priority of cooperation between DJEI, Department of Social Protection, Department of Education and Skills and the development agencies through measures such as Springboard and labour market activation protocols set out in the Government's *Pathways to Work* 2012, and 50 Point Plan to Tackle Long-term Unemployment, 2013



## Emerging companies and mobile entrepreneurs

IDA Ireland's focus on the attraction of emerging companies has delivered strongly over the past three years, with in excess of 2,500 jobs approved over the 2010 to 2013 period. We are also gaining traction in relation to mobile entrepreneurs with the support and promotional activities of Enterprise Ireland.

What is clear from the analysis of international investment trends amongst emerging companies and entrepreneurs is that competition is fierce and it is intensifying as other countries and cities seek to expand the size of this strategically important cohort.

Ireland has a credible value proposition for emerging companies and founders looking to grow their businesses. Our existing FDI base and associated talent base, particularly in the ICT/consumer internet space and life sciences is a valuable asset. Our capital city has international and multicultural appeal and a vibrant start-up community. Significant strides have been made in raising Dublin and Ireland's visibility and credibility internationally through the achievements of our home grown start-ups and founders, and through initiatives such as the *Dublin Web Summit*. We have a well-established FDI promotion presence and a suite of State supports (both financial and non-financial) available through the enterprise agencies that are relevant and impactful at different stages of the development of the business lifecycle.

Currently, responsibility for the attraction of emerging companies and mobile entrepreneurs resides with IDA Ireland and Enterprise Ireland respectively. We will ensure that we are making optimal use of the respective strengths and offerings of the enterprise agencies and that separate responsibilities do not inadvertently result in a fragmented marketing message.

The actions set out above in relation to talent and place-making are of crucial importance in achieving more investments from emerging companies and mobile entrepreneurs. Relative cost of living and disposable income are key considerations for individuals who are making location choices, for example relative personal taxation<sup>37</sup>.

### Strategic Action 8 – Mobile entrepreneurs and emerging companies

- Position Ireland as a leading European location for start-ups and fast growing businesses, accelerating the development of a supportive ecosystem, by:
  - Developing and promoting the Ireland value proposition that packages the funding environment; IP framework; structured access to Enterprise Ireland's overseas network and its programmes in internationalisation, sales and marketing, and leadership; an enhanced visa regime<sup>38</sup>; and extension of the tech visa to other areas of unmet demand in high skilled areas; innovation vouchers; Science Foundation Ireland programmes; place and quality of life attributes; etc.;
  - Working with city and regional initiatives to develop supportive ecosystems, including *Activating Dublin*, *IT@Cork* and others where relevant; and
  - Maintaining a focus on enhancing Ireland's tax environment in an international context aimed at attracting and retaining mobile entrepreneurs and emerging companies.

<sup>37</sup> The Minister for Finance has stated publicly the Government's intention to reduce the threshold at which workers pay the higher rate of tax once the State can afford to do so

<sup>38</sup> For example, foreign non-EU graduates involved in SFI programmes, accelerator programmes etc.



## The FDI ‘table stakes’

### Cost base

Relative cost competitiveness (as distinct from low cost) continues to be a key factor in investment decision making – even in circumstances where the primary driver is innovation and/or talent. The recent analysis of Ireland’s cost competitiveness undertaken by the National Competitiveness Council shows that Ireland’s cost base has improved across a range of metrics over the last number of years<sup>39</sup>. We need to remain vigilant in relation to our relative cost competitiveness, particularly with respect to labour, energy and a range of business and professional service costs.

Furthermore, we will encourage competition in sectors where it is lacking to help maintain cost of living moderation, including for example, Miscellaneous Goods and Services (health insurance) and Health (dental services)<sup>40</sup>. Oversight and appropriate interventions in relation to the property market to avoid sustained property bubbles is also important<sup>41</sup>.

#### Strategic Action 9 – Relative cost competitiveness

- Attain a top 5 international competitiveness ranking in terms of costs of doing business and costs of living by implementing the actions necessary to realise structural reforms in the areas identified by the National Competitiveness Council and Forfás, and by undertaking quarterly monitoring of progress by Government.

### Key infrastructures

Investment in essential economic infrastructures is of critical importance as a means to improve efficiency, enhance productivity potential and lower costs. Forfás (in conjunction with the enterprise agencies) and others have identified a range of infrastructure projects and reforms that would enhance the quality of Ireland’s infrastructure to support enterprise development<sup>42</sup>.

While significant investment in transport took place in the years preceding the economic crisis, this asset base, and the extensive previously existing network, must be protected and maintained. The Department of Transport, Tourism and Sport is currently engaged in producing a Strategic Framework for Investment in Land Transport (SFILT) which will provide a robust assessment of the on-going expenditure required to maintain those existing land transport assets, including roads and public transport.

In addition, renewed economic growth, and continued population growth, will give rise to specific demand pressures. Of particular concern is the need to address urban congestion through investment in urban public transport. In line with this requirement, the 2009 Forfás report *Our Cities: Drivers of National Competitiveness* highlighted the need for sustained investment to improve public transport in

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<sup>39</sup> *Costs of Doing Business in Ireland 2014*, National Competitiveness Council, March 2014

<sup>40</sup> *Consumer Costs and Inflation*, Forfás, February 2014

<sup>41</sup> Refer to the recently published *Construction 2020: A Strategy for a Renewed Construction Sector*, Department of the Taoiseach, May 2014

<sup>42</sup> Overview of the *Main Infrastructure Issues for Enterprise*, Forfás, 2012; *Joint Agency Submission on Land Transport Priorities for Enterprise*, September 2013 (Unpublished submission to Department of Transport in relation to the forthcoming review of the strategic investment framework for land transport)

our key urban centres<sup>43</sup>. This is essential if we expect our cities to grow sustainably, be good places to live in, and become world class hubs for modern enterprises. In addition to investment in urban transport, specific bottlenecks in the national roads network will also need to be addressed – in particular where such investment can directly facilitate economic growth and employment.

### Strategic Action 10 – Key infrastructures

The Department of Public Expenditure and Reform (DPER) is undertaking a review of capital expenditure priorities for the period 2015-2019.

- Prioritise capital investments to underpin the development and growth of Ireland’s productive sectors and place-making objectives. The DPER review will be informed by enterprise needs via DJEI and its agencies, as well as the robust analysis underpinning the SFILT.

## The corporate tax system

This section focuses on Ireland’s corporation tax regime – other aspects of Ireland’s taxation system relating to personal taxation are covered in the earlier sections dealing with talent and the attraction of mobile entrepreneurs and emerging companies.

Ireland has a well embedded pro-business approach to corporation tax, built on the pillars of a competitive rate, robust regime, and good reputation. We know that above all else, when it comes to taxation, businesses need certainty. We have been resolute in our commitment to maintaining the 12.5 percent rate, and have continued to evolve a system that is clear, transparent and predictable.

The Department of Finance in 2013 published *Ireland’s International Tax Strategy* which sets out the principles and strategic objectives of Ireland’s approach to international corporate tax issues (Tax Charter)<sup>44</sup>. It restates Ireland’s corporate tax policy in the context of our broader industrial policy, and highlights the key elements of good governance and transparency in the Irish regime. It further outlines Ireland’s activities in efforts at EU and OECD level to develop a response to aggressive tax planning internationally. Ireland has been fully supportive of solutions that would extend the alignment of tax and real economic activity internationally<sup>45</sup>.

Double taxation agreements (DTAs) enable mutually beneficial economic relationships by making it easier for companies to trade and invest internationally. DTAs seek to eliminate or minimise double taxation that might arise for taxpayers operating across national borders. It is important that we continue to align Ireland’s DTA strategy in so far as possible with our strategic focus in relation to exploratory FDI source markets.

Ireland’s corporate tax rate and regime are a key part of Ireland’s competitive offering to foreign investors. We will continue to explore ways in which our taxation system can support high value jobs and activity, and reward innovation, in the context of increased international co-operation on taxation.

<sup>43</sup> *Our Cities: Drivers of National Competitiveness*, National Competitiveness Council and Forfás, 2009, available at: <http://www.forfas.ie/publications/2009/title,3951,en.php>

<sup>44</sup> Available at <http://budget.gov.ie/Budgets/2014/Documents/Department%20of%20Finance%20International%20Tax%20Strategy%20Statement.pdf>

<sup>45</sup> Ireland takes an active part in the Base Erosion and Profit Shifting – BEPS – project and has recently published a consultation paper seeking views on the BEPS project and how it might impact on Irish businesses

### Strategic Action 10 – Corporate tax system

- Maintain a competitive corporate tax regime that rewards productive investment, including:
  - a continued focus ensuring certainty, stability and predictability for investors; and
  - commitment to maintaining the current 12.5 percent corporation tax rate.
- Continue to engage with the OECD BEPS process, the European Commission and other international fora on international tax issues.

## Property solutions

IDA Ireland has maintained a strong emphasis on the provision and availability of appropriate site and building solutions for future FDI. Over more recent years, IDA has worked with the National Asset Management Agency (NAMA) to secure suitable properties for key investments, most particularly in Dublin. It will continue to ensure that potential investors are offered a range of property solutions across regions mainly through engagement and partnering with the private sector, and keeping abreast of the changing requirements of international business. IDA Ireland is currently embarking on a programme of building in specific locations where the private sector is not currently providing property solutions (specifically Waterford and Athlone and office space in Letterkenny).

### Strategic Action 12 – Property solutions

- Work with market players to provide attractive property and site solutions in regional locations so as to ensure that potential investors are offered a range of property solutions across regions, adopting a partnership approach to facilitate speedy establishment;
- Looking forward to 2020, working with other stakeholders, continue to assess and anticipate the changing site and property needs of companies and sectors.

## Investment promotion

IDA Ireland is Ireland's principal investment promotion agency with a mandate to:

- Actively promote Ireland as a location of choice for investment in overseas markets, engaging directly with key decision makers to influence and/or inform a company's location decision;
- Develop strong relationships with foreign owned firms based in Ireland, involving a concerted aftercare programme of supports and services to ensure that Irish based MNCs become increasingly embedded in Ireland, maintain and/or gain a strategic importance within the corporation and continuously evolve and transform in terms of capability; and to
- Influence the development and implementation of enterprise related policies, regulations and State investments that create an attractive environment and place from which to do business.

IDA Ireland also works in partnership with its sister agencies, Enterprise Ireland and Science Foundation Ireland.

- **Enterprise Ireland:** is responsible for attracting greenfield and expansion investments from foreign owned companies operating in the Agri-food sector and other natural resource based activities. It is also responsible for attracting investment from mobile entrepreneurs, and providing access to a range of services for foreign owned start-ups.

- **Science Foundation Ireland:** Although it does not provide funding supports directly to firms, Science Foundation Ireland supported Research Centres and Industry Fellowship awards are particularly pertinent in terms of enhancing the attractiveness of Ireland for FDI in RD&I and for mobile talent.

In addition to the above, the public-private investment promotion initiative *Connect Ireland* was launched in 2012 and is perceived internationally as an innovative approach to investment promotion that connects with Ireland's diaspora. It rewards an individual who has referred an overseas company to them that is considering an investment project, when that referral results in job creation in Ireland. A review of *Connect Ireland* is currently being undertaken to assess its effectiveness.

Diplomatic resources in overseas markets also have a role in promoting Ireland as a location for investment, in emerging economies in particular. The Global Irish Network and Global Irish Forum are also important levers for promoting Ireland as a location for investment and building Ireland's reputation internationally<sup>46</sup>. The alignment of tourism promotion as part of our national Trade, Tourism and Investment Strategy also presents opportunities for cohesive promotion of Ireland's attractiveness as a place to live, work and play and for cost-effective in-market promotion in new territories.

While IDA Ireland itself has a very strong international reputation and is widely considered to be one of the world's most effective IPAs, its ultimate effectiveness is highly contingent on the business ecosystem here. Building relationships and close cooperation with other agencies, State bodies, and Government Departments at national, regional and local level is crucial.

The more sophisticated value propositions needed today require intensified cooperation and collaboration across the government system, agencies, bodies and industry associations that have a role to play in ensuring Ireland's continued success in attracting FDI.

### Financial incentives and funding

Direct state aid in support of FDI has become increasingly restrictive under EU State Aid modernisation (especially through successive revisions of regional aid guidelines). Yet, foreign firms based in Ireland have reported that direct financial incentives continue to play a role in influencing investment decisions as a demonstrator of continued Government commitment<sup>47</sup>. In this context, it is imperative that all potential sources of financial support are leveraged to help sustain and further embed foreign firms within the economy. Incentives for investment in the regions are still important to overcome the relative disadvantages of locations and the need to upgrade the economic structure of the regions. The parameters used in the economic appraisal of such supports will continue to reflect those regional differentials<sup>48</sup>.

A national approach to optimising the use of EU funds that sets out priorities and responsibilities at programme level and that harnesses the collective expertise available in various government departments, authorities and agencies is of critical importance. DJEI will drive the agenda from an enterprise policy perspective, taking into consideration the attraction and retention of overseas mobile investment.

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<sup>46</sup> <https://www.globalirishforum.ie/GlobalIrishNetwork.aspx>

<sup>47</sup> *Evaluation of IDA Ireland Capital and Employment Grants*, Forfás (forthcoming)

<sup>48</sup> For cost benefit analysis purposes, the Forfás economic appraisal methodology sets differentiated shadow prices for labour in the Dublin, BMW and rest of Ireland areas and also differentiates between higher value added projects based on wage bands

### Strategic Action 13 – investment promotion & IDA Ireland strategy

- IDA Ireland will develop its new strategy covering the period to 2020 within the context of Ireland’s overarching FDI policy framework.
- Specific actions aimed at further enhancing agency collaboration will be articulated within the strategies of each agency.
- Promote greater enterprise engagement in EU funding programmes including for example, EU Horizon 2020, Innovation and Erasmus funding etc.

## Effective policy execution

In a context of intensified global competition and the increasing challenge of differentiation, it is not only what is done from a policy perspective that can set a location apart from others, but rather how it is done. Policy approaches in successful FDI locations are characterised by: strategic long-term objectives; system-wide engagement, effective partnering and collaboration; as well as visible and tangible high-level political commitment and leadership.

We have demonstrated through the Troika process, with a very positive impact on our reputation overseas, how as a nation we can achieve required outcomes with a focused approach, system-wide buy-in, and high level political championing. The Government has also elevated the job creation imperative to the highest level through the Cabinet Committee on Jobs and Economic Renewal and instigated a robust cross departmental implementation mechanism through the *Action Plan for Jobs*. We need to maintain this collaborative execution mind-set and momentum across all aspects of our FDI enabling policy framework and ensure that it cascades through to effective partnering and collaborative working on the ground both domestically and in overseas contexts<sup>49</sup>.

### Strategic Action 14 - Effective policy execution

- Effective policy development and execution across Government is essential to achieve the jobs and growth potential of FDI. To this end:
  - IDA Ireland and the other development agencies involved in the promotion of Ireland for investment, in conjunction with DJEI, should articulate development requirements in line with our current and emerging FDI target areas (sectors/activities, source markets, alternative modes of investment);
  - DJEI will be the lead advocate driving prioritised delivery of the policy agenda, working with partners across the Government system; and
  - The Action Plan for Jobs process will continue to be an important mechanism for delivery on improving Ireland’s attractiveness for FDI, on an annual basis.

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<sup>49</sup> *Ireland’s Action Plan for Jobs: A Preliminary Review*, OECD acknowledges the success of the whole of government approach taken in the *Action Plan for Jobs* process and contends that Ireland can build from this to enhance horizontal policy coordination and key sector based strategies so that opportunities for policy synergies are fully exploited



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