

BRIEFING NOTE

The Cost of Doing Business in Ireland 2016 – Transport Costs

Introduction

The National Competitiveness Council publishes an analysis each year of the cost of doing business in Ireland. The 2016 report was published in April and the full text can be found at www.competitiveness.ie/Publications/2016/Cost-of-Doing-Business-2016.pdf. This briefing note provides a short overview of the report, concentrating on those aspects most relevant to the transport and logistics sector.

According to the report, the cost base for enterprise has improved since 2009. However Ireland remains a relatively high cost location for business and addressing cost competitiveness must therefore remain a key national priority.

Why Costs Matter

The report observes that generating sustainable and broadly based export-led growth is essential to the rebuilding of the Irish economy. To do this, Ireland has to maintain and enhance its international competitiveness relative to its key competitors. It points out that a high cost business environment weakens competitiveness in a number of ways:

- High costs make Ireland less attractive for foreign direct investment and business expansion.
- Firms which rely on Irish inputs, particularly large indigenous exporters such as the food and drink sector, become less competitive in export markets.
- Firms which do not export and rely on the domestic market may lose market share to companies which source cheaper inputs abroad.

Because economic growth has returned and because of the reductions in business costs which have been achieved in recent years, further across-the-board reductions will be difficult to achieve. That said, we have to protect the gains already made and continue to tackle unnecessarily high costs, particularly those that cannot be justified by productivity. The report also stresses the inter-dependencies between business cost competitiveness, wage expectations and the cost of living. Increasing business costs impact on the cost of living which leads to higher wage demands and higher wages in turn result in still higher business costs. It is important to control business costs and thereby create a virtuous circle between the cost of living, wage expectations and cost competitiveness.

The report examines the impact on business of labour, property, transport, utility, credit and financial and business services costs and also looks briefly at the broader

cost environment. It uses a number of indicators to assess cost trends in the individual sectors.

Which Costs Matter Most?

The report looks at those elements of business costs which are determined at a domestic level, that is excluding those elements of cost where the price is determined by global supply and demand (such as commodity raw materials and industrial equipment). An analysis of these location-sensitive costs in ten developed economies (Australia, Canada, France, Germany, Italy, Japan, Mexico, Netherlands, UK and USA) shows that labour accounts for over 60% of total enterprise costs, followed by interest and depreciation (13%), income taxes (10%) and transport (8%). Across the manufacturing sector, transport accounts for between 6 and 21% of total costs. Although Ireland was not included in the study, this analysis provides useful pointers to the size and relative importance of the various components of overall location-sensitive business costs.

Transport Costs

The report looks at a number of indicators relating to transport costs and compares them with those of our competitors.

Overall transport costs have been fairly stable since 2007. The main exception is air transport costs which rose by over 40% between 2010 and the start of 2015 but moderated throughout the rest of 2015, ending the year about a quarter higher than 2010. By contrast, warehousing, storage and cargo handling costs declined by over 10% since 2010. Road freight costs have only increased marginally since 2010 and at the end of last year were at about the same level as in 2007. Maritime transport costs were about 15% higher than the 2010 level.

The cost of diesel was 9.2% above the Euro area average in January 2016. This is despite the cost of diesel decreasing by 8% in the year to January 2016. Taxes are responsible for the majority of the differential between Irish and Euro area prices. Irish taxes on diesel account for almost 66% of the total cost – the third highest in the Euro area and unchanged from 2015.

The administrative costs associated with the export of a container (at \$305) were almost twice the OECD average of \$160. It takes 24 hours to complete the required procedures in Ireland which compares poorly with the OECD average of less than five hours. The administrative costs of importing a container are also about twice the OECD average (\$253 compared with \$123) but Ireland performed well in the time taken to complete the procedures, being joint-lowest with New Zealand, Singapore and South Korea.

Average hourly labour costs in the transport sector were almost €25 in Quarter 4/2015, back at about the same level they were at end 2010.

Other Costs

Labour is the most significant cost for most firms. While the increase in labour costs has been modest over the year to Quarter 3/2015 (2.1%), it has still grown more than the EU-28 (1.9%) and the Euro area (1.2%). Ireland has the second highest monthly minimum wage in the Euro area and the fifth highest in terms of purchasing power. Net earnings (after tax) are over 10% above the Euro area average. Further upward pressure on wages is expected as the labour market tightens. It is important that increases in labour costs do not outstrip productivity growth so as not to damage our competitiveness.

Income tax and social security payments are generally lower than the OECD average.

The availability and cost of property is now a significant threat to sustained cost competitiveness. There are concerns about the availability of prime office space to rent in major urban areas. Commercial rents are increasing in Ireland and are the sixth highest in the Euro area. However the cost of constructing office and factory premises in Ireland has fallen since 2013 and is reasonably competitive.

In the first half of 2015, electricity prices for large users were 4% higher than the average for the Euro area and the fifth most expensive. In the first half of that year, industrial gas prices were almost 5% higher and the sixth highest in the Euro area.

The cost to business of water and waste water compares favourably with competitors. Landfill costs are more expensive than most competitors.

High usage mobile phone packages (900 minutes and 2GB data) cost almost 40% less than the OECD average. Fixed voice telephony charges are significantly higher than competitor countries. Fixed broadband charges lie midway between the highest and lowest cost countries, while mobile broadband costs least.

The interest rate on business loans of up to €250,000 is more than 80% higher than the Euro area average and for loans of up to €1 million more than 60% higher (December 2015). Business service costs have risen in Ireland by over 7% since 2010 compared with under 3% in the EU-15. The cost of accounting services in Ireland is still below the 2010 level but the cost of legal services hardly changed at all and by end 2015 was almost 6% above the 2010 level.

Broader Cost Environment

Irish consumer prices are over 20% above the Euro area average. Ireland is higher than the Euro area average in 11 out of 12 categories of goods and services, the only exception being clothing and footwear. Transport costs are close to the average

while alcohol and tobacco, health and housing costs are substantially higher. Irish consumer price inflation is well below the EU average, leading to a description of Ireland as “high cost, rising slowly”. The net cost of childcare is the second highest of sixteen comparator countries in the EU/OECD and accounts for about 40% of the average wage in Ireland (compared with an average less than 20% in the comparator countries). One result of this is relatively low female labour force participation rates.

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