# OECD REVIEWS OF FOREIGN DIRECT INVESTMENT

## IRELAND

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

# ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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# Foreword

This report examines Ireland's foreign direct investment policies. It is the result of an examination held in September 1993 by an OECD Working Group made up of representatives of the Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises. These committees, whose members are officials from ministries of finance, foreign affairs, commerce and industry, and from central banks, promote liberal, non-discriminatory investment policies through the OECD Code of Liberalisation of Capital Movements and the National Treatment Instrument.

The report has been reviewed and adopted by both committees and was derestricted by the OECD Council on 14 April 1994. Factual updating has been made through November 1993.

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*Chapter 1*

# Introduction and summary

Ireland has long recognised the financial, technological, managerial and employment benefits of foreign direct investment, and has actively sought to integrate its economy more fully into the global economy through FDI. Attracting international direct investment has been a major part of its industrial policy since the late 1950s, when the government moved away from import substitution strategies, protectionism, and foreign ownership restrictions to allow foreigners nearly unrestricted access to the Irish economy. Restrictions on foreign investment in Ireland were replaced by tax incentives and grants, and the government recognised the need to create a favourable climate for firms offering export-led growth. Indeed, among the smaller, geographically isolated OECD economies, Ireland was one of the first to fully embrace an outward-looking approach to international direct investment.

Ireland's membership in the European Community on 1 January 1973 accelerated the country's integration into the European and world economy, and provided strong incentive for foreign investment into Ireland. Seventy per cent of the manufacturing companies currently operating in Ireland have set up since Ireland joined the European Community.[1] Membership in the Community has given these firms access to the European market of some 350 million people, and has also exposed industry in Ireland to international competition. The Irish authorities welcome the new opportunities and competitive dynamics that greater integration is expected to bring. Membership in the EEC has also brought important financial benefit to Ireland in the form of structural and cohesion funds, which are being used to develop Ireland's infrastructure and bring its economy more closely into line with its European partners. Indeed, from 1990-1992 net transfers from the EC to Ireland totalled almost Irish £5 billion, over 6 per cent of

the country's GDP (Table 4). The free exchange of goods, services, investment and people among EC member states poses challenges for Ireland, too, as competition among countries for FDI grows and investors have more options when considering investment sites in Europe.

Foreign direct investment plays a singularly important role in the Irish economy and has contributed significantly to the expansion and diversification of its industrial base, the diffusion and application of new technologies, and the creation of jobs in the private sector. Among OECD countries, FDI in Ireland accounts for a relatively large part of its manufacturing output, employment and exports. The Government has spent significant financial resources bringing high technology, capital-intensive firms into Ireland, and has done so with considerable success.

The financial support for foreign investment has not been without costs, however, and questions have been raised about the extent to which the widespread availability of grants may have distorted the market for industrial finance and inhibited the development of commercial support for grant-aided firms.[2] The grant programme has also been costly, with substantial resources going to private foreign and domestic firms wishing to establish or expand their business. Grant aid to new foreign start-ups alone currently total about Ir£50 million a year.[3] There have also been concerns about what has been called the "grant mentality," whereby private investors depend on public assistance for profit-making endeavours. Finally, indigenous enterprise development has lagged behind the international sector, exacerbating the problem of the dual economy and forcing the government to rethink its approach to industrial development.

The government's new approach to industrial policy seeks to address these problems by tying grants more closely to jobs created rather than to capital spent, and gives greater priority to employment creation and local enterprise development. Indeed, while FDI promotion has been successful, foreign firms have not provided enough new jobs to offset job losses in indigenous companies and the inflow of new entrants into the workforce. Ireland's unemployment rate remains nearly the highest in the OECD.

Despite Ireland's openess and receptivity to foreign direct investment, there are nevertheless several areas where foreign investment is restricted and where monopolies and other market access barriers could impede direct investment inflows. For example, the energy sector is characterised by the dominance of state

enterprises, monopolies and other forms of government intervention, telecommunications services remain a public monopoly, and air transport is restricted to Irish or EC companies. There are also a number of licensing and other controls in various trades and professions that restrict foreign participation. In addition, certain provisions apply to non-EC investors but not to investors from the European Economic Community. Reciprocity considerations, for example, may apply to non-EC investments in banking and financial services and in the establishment of branches of insurance companies, but not to EC firms. Moreover, non-EC investors do not benefit from the recent liberalisations in air transport, the acquisition of land for agricultural purposes, or the acquisition of Irish-registered sea fishing vessels. Investment by non-EC residents in flour milling activities has long been restricted under Irish law.

This report examines the role of foreign investment in the Irish economy, Ireland's support for such investment, the policy implications of the fiscal, financial and other support being offered to foreign investors, and the areas or activities where impediments to foreign investment remain. A number of policy issues are highlighted. First, it is suggested that data on incoming foreign investment is surprisingly incomplete and should be improved by establishing a better capability for the collection, compilation, and distribution of FDI data. The Irish authorities recognise that a more comprehensive and systematic approach to FDI data collection is needed, and are instituting a new system for that purpose.

The Irish government's recent reorientation of industrial policy towards indigenous enterprises and developing greater links between Irish and foreign firms may have implications for foreign investors, both those wishing to establish and those already in Ireland. The government will more closely scrutinise companies in meeting certain performance targets, such as those related to the creation of jobs, and will "claw back" grant benefits from firms which fail to meet their targets. How this policy is carried out, and in particular, whether foreign and local firms will be subject to the same requirements, will have an important bearing on the investment environment in Ireland.

Another issue is privatisation, where the Irish government has announced its intention not to further privatise state enterprises, and the more general question of the role of the state in Ireland's economy. The question of whether it may be desirable at least to consider further market-opening measures might be addressed, given the state's relatively large role in the Irish economy, its desire to

enhance competition in sectors where the state is dominant, the continued burden of many state enterprises on the national budget, and the success of earlier privatisations in the insurance and food industries.

The remainder of this note is organised as follows: Chapter 2 analyses FDI trends in Ireland and the role of foreign investment in the Irish economy. Chapter 3 examines Ireland's FDI policies and Chapter 4 provides concluding comments and observations on Ireland's FDI policies. Annex 1 explains the nature and role of the OECD instruments in promoting liberal FDI policies and details Ireland's position under these instruments. Annex 2 contains lists a chronology of main events affecting FDI policy and practice in Ireland. Annex 3 contains direct investment statistics to and from the OECD countries, and Annex 4 is a list of useful references.

*Chapter 2*

# The role of foreign direct investment in Ireland

## A. Introduction

Foreign direct investment has long been regarded as a key component in Ireland's economic development. Since the late 1950s and early 1960s, successive governments have encouraged foreign equity participation in the Irish economy, mostly through the use of grants, and foreign firms today account for half of Ireland's industrial output and three-quarters of its manufactured exports.[4] This is quite high by OECD standards and reflects FDI's important role in Ireland's economy. Foreign firms in Ireland have contributed to expanded output, higher productivity, and export growth, and the fastest growing sectors in the Irish economy during the 1980s and 1990s have been predominantly foreign-owned. In 1992 around three-quarters of the 10 per cent increase in manufacturing output came from the foreign-owned, high technology sectors.[5] Most of the new service firms in Ireland are foreign-owned, too.

United States firms are easily the most important foreign investors in Ireland, measured by value of investment, number of firms, and number of people employed. Next come companies from the United Kingdom, whose share of the total foreign investment has been falling in recent years, followed by Germany, whose firms have increased their presence since 1988. Metal products have taken the largest share of foreign investment since 1983, followed by chemicals and the food and beverage industry. More foreign companies had established Irish affiliates in metals and engineering than any other sector in 1992, with financial services second in terms of the number of foreign firms establishing in Ireland.

## B. Data and methodological issues[6]

Statistics of direct investment flows are not presently available in Ireland's balance of payments statistics, which are compiled and published by the Central Statistics Office. A new data collection system for balance of payments statistics is planned, and it is expected that the new system will include statistics on foreign direct investment. Under the new system, which will be largely based on the OECD Benchmark Definition of Foreign Direct Investment, FDI is likely to be defined as investment in which a foreign investor owns 10 per cent of the enterprise's equity and has an effective voice in its management.[7]

Planning and implementing the new system will take several years. In the meantime, the Central Statistics Office is putting in place several surveys designed to fill the more serious gaps, and where possible to strengthen and improve the system. The surveys will cover about 350 enterprises engaged in inward and outward direct investment. Statistics on mergers, acquisitions and take-overs are not systematically compiled but some of this activity would be captured in the surveys. In this interim phase the Irish authorities hope that improvements will be possible in the statistics on direct investment.

In the absence of balance of payments data on direct investment, the Irish authorities have compiled data on fixed asset investment undertaken each year since 1983 by foreign-owned companies in Ireland. The data is drawn from Industrial Development Authority (IDA) records, and covers only investment eligible for IDA grant assistance, which includes investment in manufacturing and in internationally-traded services. IDA direct investment data do not include:

1. investments in fixed assets which are not grant aided;
2. investment in working capital;
3. investment by foreign companies which are not IDA clients;
4. investments for mergers and acquisitions.

Companies which may be investing in Ireland but which are not IDA clients, and therefore would not be captured in the IDA's statistics include, for example, non-bank finance institutions and foreign-owned retail and wholesale firms. These are not the most significant investments not recorded in IDA data, however. Investment in working capital constitutes the largest single portion of incoming FDI not captured by IDA data.

While this data is incomplete, it is known to account for a high but decreasing proportion of total fixed asset investment by foreign-owned companies. It should be noted that no information is available on the financial flows underlying these investments, in particular the extent to which additional fixed asset investment by existing firms is financed by new investment rather than out of retained earnings. No information is available on outward direct investment from Ireland.

## C. FDI inflows, home countries and sectors

Data from the Industrial Development Authority, which covers only investments eligible for grant assistance, show uneven flows of FDI into Ireland since 1983. Inflows declined from $238 million in 1983 to $198 million in 1985, then picked up from 1985-1987, when inflows reached $312 million. FDI fell again from 1987-1989, when inflows totalled $192 million, and then increased after 1989, reaching $361 million in 1992 (Table 1 and Chart 1). It must be remembered that IDA data covers only grant-eligible investments, which account for a high but decreasing proportion of all fixed asset investment by foreign-owned companies. Thus, the actual amount of FDI flowing into Ireland is probably larger than indicated by IDA figures, although the trends are probably the same.

Nearly all of the foreign investment in Ireland has been in greenfield investment and expansions, with very little merger and acquisition activity. This is

Table 1. **Foreign direct investment flows, 1983-1992**[1]

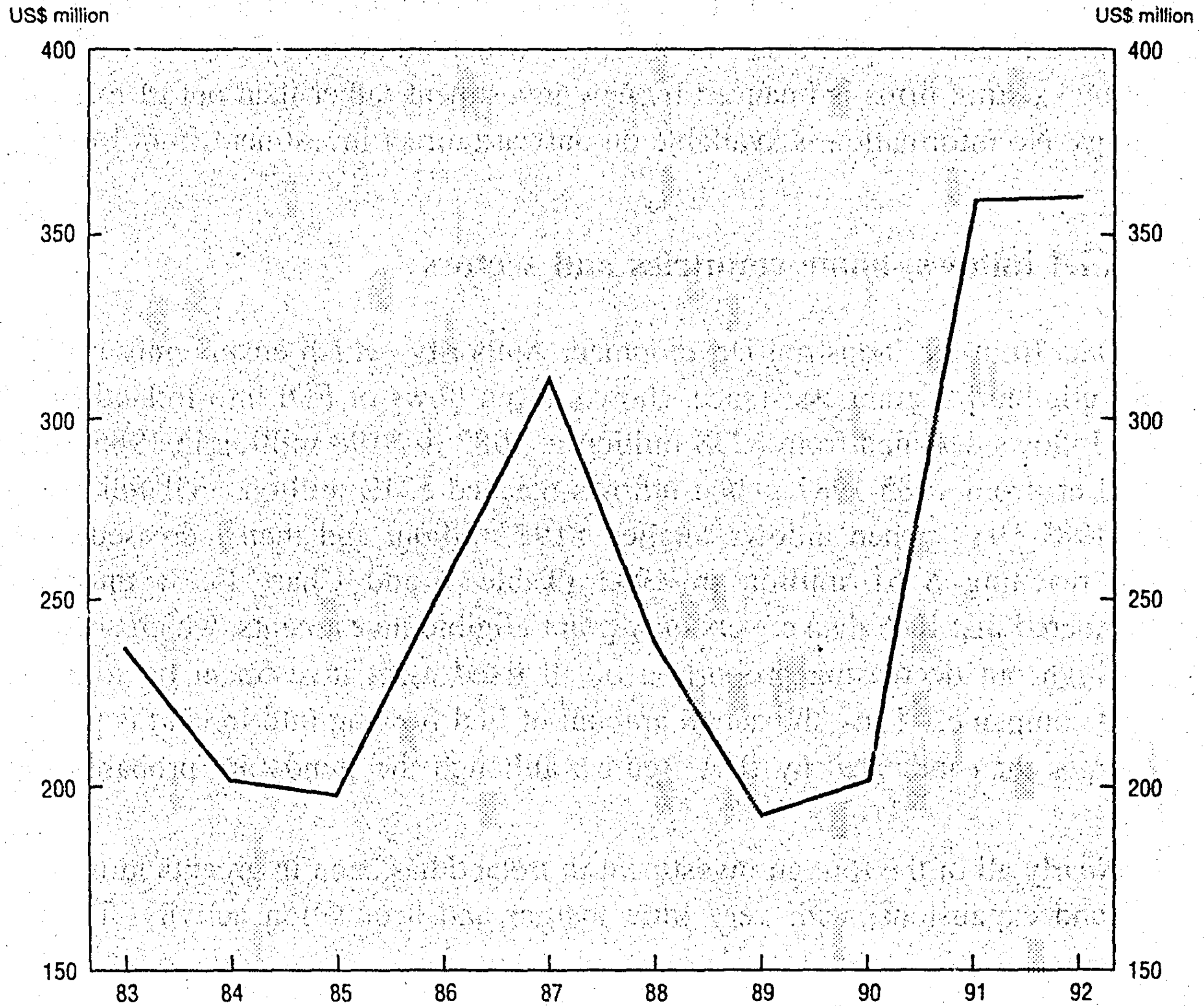
In US$ million

| Years | Inward | Years | Inward |
|---|---|---|---|
| 1983 | 238 | 1988 | 239 |
| 1984 | 202 | 1989 | 192 |
| 1985 | 198 | 1990 | 202 |
| 1986 | 253 | 1991 | 360 |
| 1987 | 312 | 1992 | 361 |

1. Fixed asset investment by foreign-owned companies eligible for grant assistance by IDA (excludes Shannon Free Airport industrial zone).

*Source:* Industrial Development Authority of Ireland (IDA); data converted in $ at average of daily exchange rates.

Chart 1. **Foreign direct investment flows**
**Grant-aided fixed asset investment**
1983-1992




*Source:* OECD/DAF.

partly explained by the structure of industry in Ireland, in which there are relatively few companies that would appear to be attractive acquisition targets. The few acquisitions and mergers that have taken place have involved food and financial services companies. Moreover, in an economy like Ireland's, with a relatively small industrial base and significant potential for growth in the manufacturing, industrial and service sectors, there are likely to be more opportunities for new start up businesses than in a larger, more mature economy.

Foreign investors also do not appear to have engaged in many joint ventures, either. It may be, however, that the available statistics undervalue joint ventures because only those ventures in which the foreign investor takes a majority share are included in IDA data. If Irish investors control a majority of the joint venture's stock the transaction will not be included in IDA's statistics.

United States companies are by far the largest investors in Ireland, employing more people, investing more capital and controlling more firms than investors from any other country. This is partially explained by long-standing historical ties between the United States and Ireland, and the fact that US firms were early entrants in the Irish market. US companies began to invest in Ireland in a substantial way in the 1970s and 1980s, putting a large portion of their capital in the electronic and pharmaceuticals industries. This dominant position has continued through the second half of the 1980s and into the 1990s. United States firms have accounted for over half of the total foreign investment in Ireland since 1983.

The next largest investors in Ireland are companies from the United Kingdom and Germany, followed by the Netherlands and France. The United Kingdom's share of the total fell from almost 17 per cent during the 1983-1987 period to around 6 per cent during the 1988-1992 period, while Germany's share of the total rose from 7 to nearly 10 per cent during the same period. Indeed, of the major foreign investors in Ireland, only German firms' average during 1988-1992 was larger than during the 1983-1987 period (Table 2).

Table 2. **Foreign fixed asset investment flows by country, 1983-1992**[1]

In Ir£ million

| | 1983-87 Average | % of total | 1988-92 Average | % of total | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|
| United Kingdom | 32 | 16.6 | 12 | 6.8 | 15 | 15 | 13 | 7 | 9 |
| Germany | 14 | 7.5 | 16 | 9.7 | 17 | 11 | 15 | 22 | 17 |
| Other Europe | 29 | 15.0 | 24 | 14.3 | 34 | 13 | 13 | 37 | 26 |
| United States | 103 | 53.5 | 95 | 56.0 | 77 | 83 | 69 | 112 | 133 |
| **Total** | **193** | **100.0** | **170** | **100.0** | **157** | **136** | **122** | **223** | **212** |

1. Fixed asset investment by foreign-owned companies eligible for grant assistance by IDA (excludes Shannon Free Airport industrial zone).

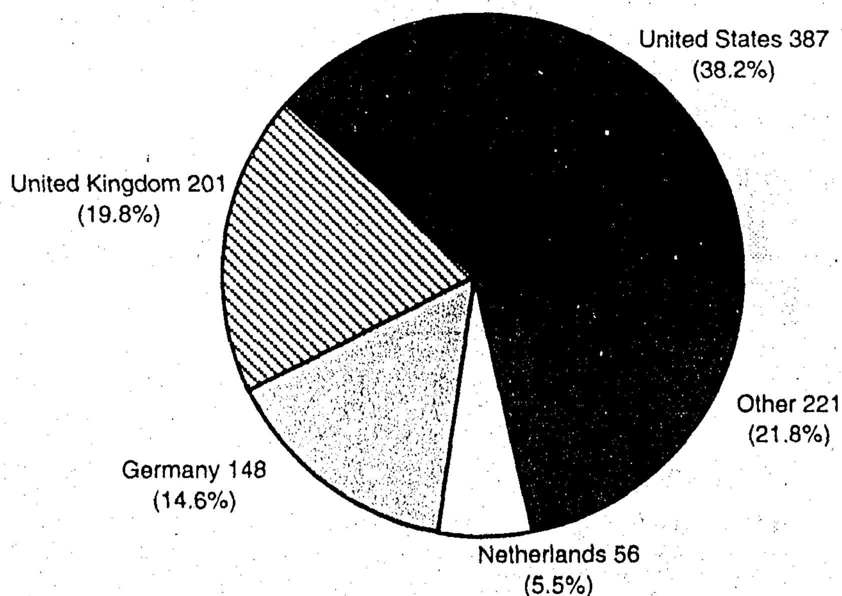
*Source:* Industrial Development Authority of Ireland (IDA).

Japanese investment has so far been small, with only 28 Japanese companies established in Ireland by the end of 1992.[8] Part of the reason may be that with a population of only 3.5 million Ireland cannot provide a substantial domestic market. Another reason for the paucity of Japanese investment may be Ireland's location as an island situated on the fringe of the European mainland. Japanese investors seem to give particular value to being close to large markets.

In terms of the number of foreign companies operating in Ireland, the United States is dominant, with 387 firms accounting for 38 per cent of all foreign enterprises there. The United Kingdom is next with just over 200 companies and about 20 per cent of the share of foreign companies, followed by Germany with 148 companies (Chart 2).

Metal products have taken the largest share of fixed asset foreign investment since 1983, accounting for 55 per cent of the average during 1988-1992. Next in importance in terms of value of foreign investment is chemicals, which over the 1988-1992 period averaged almost 20 per cent of all grant-aided investment. The food, beverage, and tobacco sector fell in importance, from 19 per cent of all

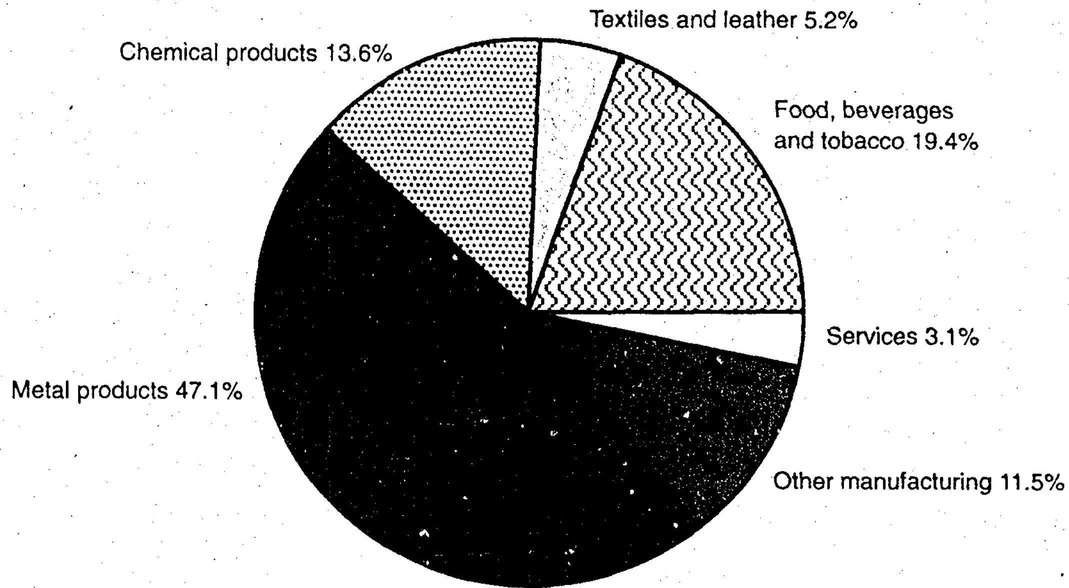
Chart 2. **Number of foreign companies operating in Ireland in 1992, by country of origin**



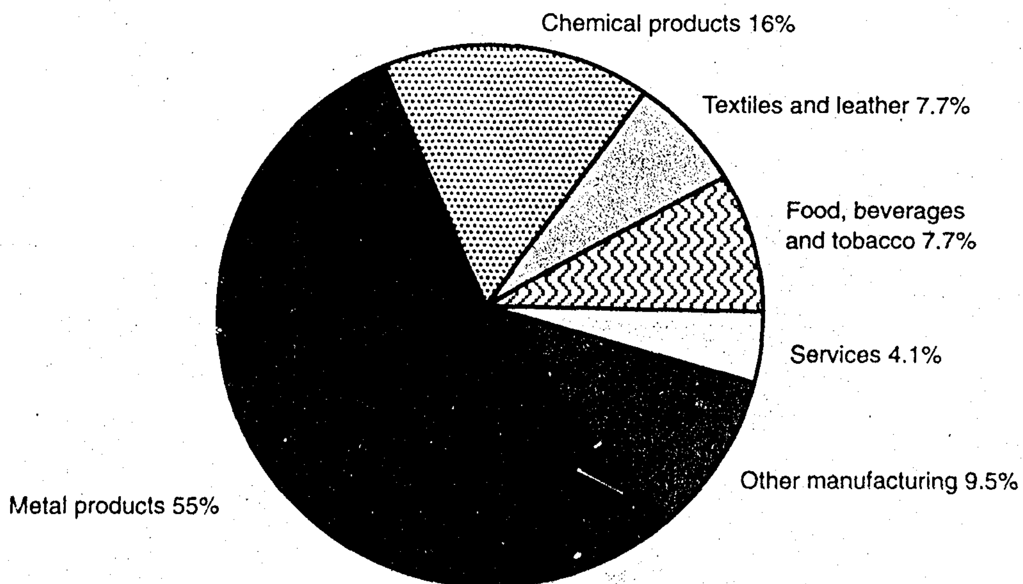

*Source:* OECD/DAF.

Chart 3. **Foreign direct investment**
**Fixed asset investment flows by industry**

**1983-1987 average**




**1988-1992 average**

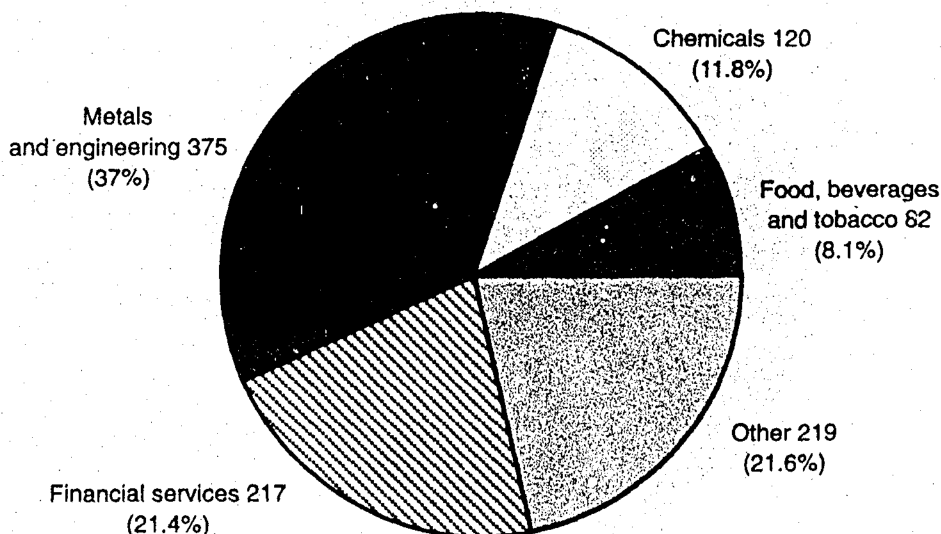



*Source:* OECD/DAF.

grant-aided investment during the 1983-1987 period to just under 8 per cent during 1988-1992 (Chart 3).

The largest number of foreign firms were engaged in metals and engineering, some 375 companies accounting for 37 per cent of all firms in 1992. The next most important sector in terms of number of companies is financial services, with 217 firms accounting for 21 per cent of the total number of grant-eligible foreign investors in 1992 (Chart 4). These figures give an indication of the number of firms established by foreign investors in various sectors of the Irish economy, but do not say anything about the size or value of those investments. In the financial services sector, for example, most of the foreign firms in the International Financial Services Centre were set up only a few years ago. A large majority of these firms are at the early stages of their development and may be relatively small in terms of the number of people employed. By contrast, in the electronics industry, where Ireland has long had a strong base, 250 companies employ more than 25 000 people and generate a quarter of Ireland's manufactured exports.[9]

Chart 4. **Number of foreign companies operating in Ireland in 1992, by sector**



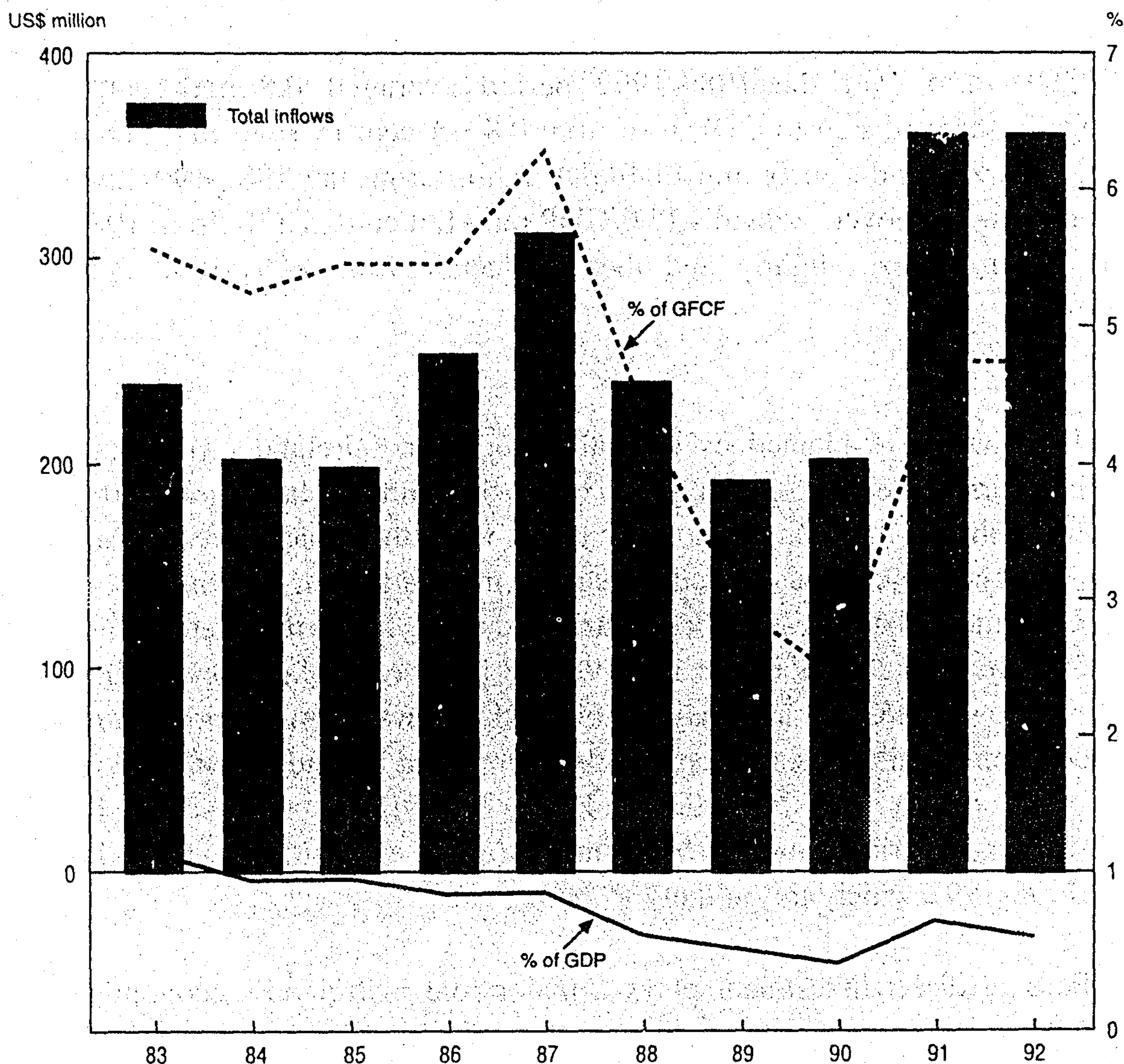

*Source:* OECD/DAF.

Ireland's incoming direct investment, on the basis of available data, comprises a relatively moderate part of its gross domestic product when compared to other OECD countries of comparable size. For example, Ireland's incoming FDI/GDP ratio over the 1983-1992 period averaged 0.8 per cent, while Portugal's share of FDI to GDP rose from 0.8 per cent in 1986 to 4 per cent in 1991. New Zealand's incoming FDI/GDP ratio during the 1981-1991 averaged 1.3 per cent. Moreover, Ireland's FDI/GDP ratio fell consistently from 1983 until 1990, when it rose slightly and then fell again from 1991-1992 (Chart 5, Table 3).

This may be explained by several factors. First, Ireland's GDP has been growing during the last several years while FDI inflows have not. Part of the reason for this is that competition for direct investment has increased substantially in recent years, and Ireland's share of the market for FDI has decreased. Moreover, the global recession has contributed to the fall in the overall volume of FDI from its peak levels in the late 1980s.[10] Another explanation for Ireland's relatively low FDI/GDP ratio may be that FDI inflows are substantially underestimated by the available statistics. Finally, comparing Ireland's FDI/GDP ratio to that of a country like New Zealand may be slightly misleading, in that New Zealand's privatisation programme attracted exceptionally large inflows from 1990-1992 which are unlikely to be repeated.

Foreign direct investment plays a major role in Ireland's economy when measured against other criteria. Industrial employment and output are heavily dependent on foreign firms: half of the employment in the industrial sector and 75 per cent of its output are attributed to foreign companies. Foreign firms employ almost 80 per cent of all those employed in the chemicals sector, 70 per cent in textiles, 70 per cent in beverage and tobacco, and 55 per cent in financial and other services (Chart 6). Employment growth, although too weak to offset the growing workforce, has largely come from foreign private firms, which have increased in number and in number of employed over the last 20 years (Table 4). Indeed, the available data suggests that the unemployment problem would have been more severe without the large presence of multinational enterprises. Since 1987, for example, foreign-owned firms have provided a net gain of 10 400 jobs, while Irish-owned companies have lost 600 jobs over the same period.[11]

Chart 5. **FDI as a percentage of GDP and GFCF**
1983-1992




*Sources:* OECD/DAF.

## D. FDI outflows, host countries and sectors

Irish-owned companies have traditionally not been important overseas investors, although in the mid-to-late 1980s several Irish enterprises, mostly in the banking sector, began to make investments abroad, mostly through acquisitions in the United States. To the extent that Ireland is acting as home to

## Table 3. **Indicators of international direct investment**

In US$ million

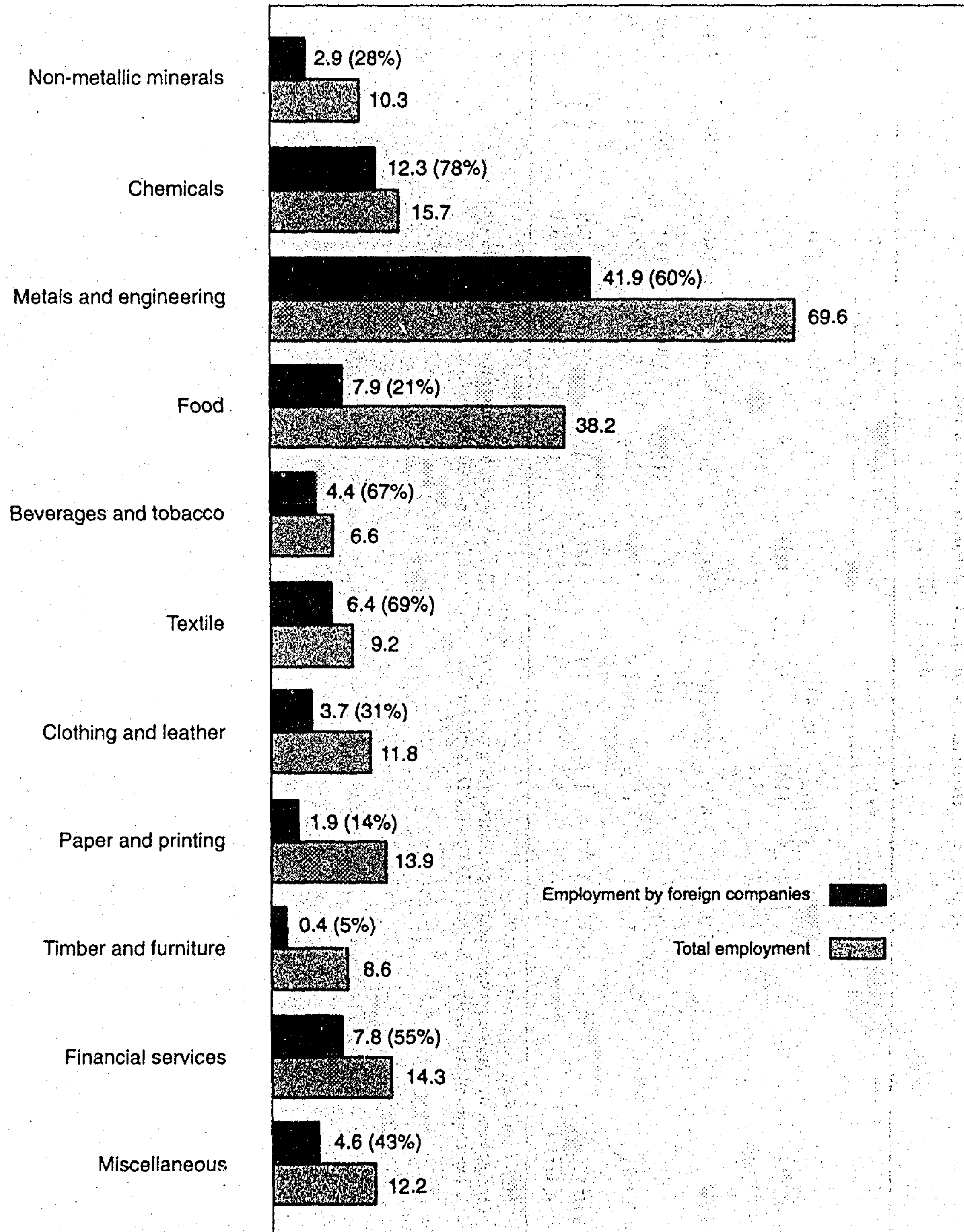
| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992[1] |
|---|---|---|---|---|---|---|---|---|---|---|
| GDP | 18 370 | 17 780 | 18 810 | 25 400 | 30 140 | 33 340 | 34 580 | 43 010 | 43 430 | 48 700 |
| Nominal growth (%) | 10.4 | 11.0 | 8.5 | 6.1 | 7.4 | 7.9 | 11.5 | 6.6 | 3.8 | .. |
| Real growth (%) | –0.2 | 4.4 | 3.1 | –0.4 | 5.0 | 4.9 | 6.5 | 8.3 | 2.5 | .. |
| GFCF | 4 250 | 3 810 | 3 580 | 4 570 | 4 950 | 5 440 | 6 140 | 7 980 | 7 440 | 7 566 |
| Inflows[2] | 238 | 202 | 198 | 253 | 312 | 239 | 192 | 202 | 360 | 361 |
| Inflows growth (%) | .. | –15.1 | –2.0 | 27.8 | 23.3 | –23.4 | –19.7 | 5.2 | 78.2 | 0.3 |
| Inflows as % of GDP | 1.3 | 1.1 | 1.1 | 1.0 | 1.0 | 0.7 | 0.6 | 0.5 | 0.8 | 0.7 |
| Inflows as % of GFCF | 5.6 | 5.3 | 5.5 | 5.5 | 6.3 | 4.4 | 3.1 | 2.5 | 4.8 | 4.8 |

1. GDP and GFCF figures are estimated for 1992.
2. Fixed asset investment by foreign-owned companies eligible for grant assistance by IDA (excludes Shannon Free Airport industrial zone).

*Source:* Industrial Development Authority of Ireland (IDA); OECD, *National Accounts; OECD Economic Outlook.*

Chart 6. **Employment by foreign companies by sector in 1992**

In thousands




*Source:* OECD/DAF.

## Table 4. **European Community Transfers**

### A. European Community (EC) Transfers

| | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|
| | Ir£ million | | | |
| Receipts | | | | |
| Agricultural Guarantee Fund | 963 | 1 287 | 1 334 | 1 114 |
| Guidance Fund | 77 | 94 | 143 | 144 |
| Regional Development Fund | 113 | 225 | 342 | 442 |
| Social Fund | 139 | 128 | 371 | 277 |
| Other | 4 | 7 | 11 | 11 |
| Total | 1 295 | 1 741 | 2 201 | 1 988 |
| Net EC transfers | 1 008 | 1 457 | 1 854 | 1 635 |
| (percentage GDP) | 4.1 | 5.6 | 6.9 | 5.7 |

### B. Relative importance of the EC structural funds (1989-1993)

| | Public expenditure | | | |
|---|---|---|---|---|
| | Total (structural funds + national finance requirement) | | Structural funds | |
| | Million ecu 1989 prices | Per cent of region GDP | Million ecu 1989 prices | Per cent of region GDP |
| Ireland | 6 126.0 | 3.8 | 3 672.0 | 2.3 |
| Greece | 12 995.0 | 5.2 | 7 193.0 | 2.9 |
| Portugal | 14 026.0 | 6.6 | 7 368.0 | 3.5 |
| Spain (70 % of the country) | 16 507.0 | 2.0 | 9 779.0 | 1.2 |
| Italy (Mezzogiorno) | 14 062.0 | 1.5 | 7 583.0 | 0.8 |

### C. EC structural funds: breakdown by main categories (1989-1993)

| | Ireland | Portugal | Spain | Italy | Greece |
|---|---|---|---|---|---|
| Infrastructure | 17.1 | 27.3 | 53.1 | 47.3 | 31.3 |
| Aids to investment | 26.5 | 17.0 | 9.9 | 29.0 | 7.0 |
| Agriculture | 24.5 | 11.9 | 14.0 | 8.3 | 13.0 |
| Manpower | 31.2 | 28.0 | 22.7 | 14.8 | 13.7 |
| Regional programmes | " | 15.6 | " | " | 34.5 |
| Others | 0.6 | 0.2 | 0.3 | 0.6 | 0.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

" Included in other categories.

*Sources: A: Department of Finance and European Community;*
*B and C: European Community.*

FDI outflows, it is the Irish-owned firms that are making thc investments. Foreign-controlled firms are not investing from Ireland. No statistics are available on outward investment flows.

*Chapter 3*

# Ireland's foreign direct investment policies

## A. Introduction

There are no restrictions of a general nature governing foreign direct investment in Ireland, no limits on the percentage of foreign ownership permitted, and profits can be freely expatriated. There are no requirements that shares in Irish companies must be held by Irish citizens, and foreigners may purchase land for industrial purposes without restriction. Grant aid is available for suitable projects in all areas of the country, and is granted to foreigners on the same basis as Irish. There are no restrictions based on cultural considerations. No private investment, domestic or foreign, is permitted in the arms industry and there are no other foreign investment restrictions for public order and security reasons.

Investors from the European Economic Community and those outside the EC receive the same treatment under Irish law and practice in all but a few areas, where there are rules or restrictions that apply to non-EC investors only. Reciprocity considerations, for example, may apply to non-EC investments in banking and financial services and in the establishment of branches of insurance companies. In addition, some liberalisations have not been extended to investment by non-EC nationals. For example, direct investment in air transport, the acquisition of land for agricultural purposes, and the acquisition of Irish-registered sea fishing vessels has been made liberalised for investors from the EC but not outside the EC. Investment by non-EC residents in flour milling activities has long been restricted under Irish law.

Land appears to be the one area where foreign investment may be considered sensitive, particularly land for agricultural purposes. All non-nationals who want to purchase land must apply to the Land Commission for permission to do

so, but experience over the last seven or eight years has shown that permission to purchase land is rarely withheld.

There are no special conditions or public interest criteria that apply to take-overs of Irish firms by either EC or non-EC firms. Mergers in all businesses except newspapers must be approved by the Minister for Enterprise and Employment when assets are above Ir£5 million and when turnover exceeds Ir£10 million per year. The Government has agreed to double these thresholds to Ir£10 million and Ir£20 million respectively.

Where proposed grant aid for any one project exceeds Ir£2.5 million, training grant aid exceeds Ir£2 million, or employment grant aid is over Ir£1.25 million, the project is referred to the Government cabinet for permission to approve.

## B. Industrial policy and foreign direct investment

### *i) Introduction*

Ireland has for the last 30 years maintained an active industrial policy designed to help make its economy more competitive and increase the standard of living of its population. Government support to foreign enterprises wishing to establish or expand in the Irish market has been an important and highly visible part this industrial policy. The latest plan, covering the 1994-1999 period, will put Ir£20 billion into the Irish economy, of which over half will go to industry, transport, training and energy. Private sector investment is expected to concentrate in the industrial and service sectors, with indigenous enterprises receiving greater government support than in the past.[12]

Ireland's approach to industrial development through the broad use of grants has been evolving since the mid-1980s and took a major turn in 1992 with the adoption of a new plan for industrial policy. A 1984 White Paper on Industrial Policy had already highlighted new directions for industrial policy, emphasising research, technology, indigenous company development, and improved national linkages between foreign and Irish firms. This was the beginning of an adaptation rather than a reversal of the policy of attracting foreign investment, and the policy continues to evolve today. Indeed, the Central Bank of Ireland emphasised in the Spring of 1993 that industrial policy needs to be constantly reviewed to ensure that maximum long-term benefit is derived from the considerable expendi-

tures involved, and that an appropriate balance is kept between indigenous and foreign-owned industries.

A major industrial policy review, the "Culliton Report",[13] concluded in 1992 that Ireland had become overly dependent on overseas-owned enterprises in developing its industrial base, and that greater efforts were needed to develop the indigenous enterprise sector. A shift away from grants towards government equity participation in local enterprises was recommended. The Culliton Report also called for tighter performance targets for investors wishing to qualify for grants, and withholding grants from companies which fail to meet specified targets, such as jobs created.

It was also recommended that a broader approach to industrial development be undertaken, taking into account those factors most critical to economic performance, including the level and structure of taxation, cost and quality of infrastructure, and the effectiveness of training and education. Greater attention will therefore be paid to improving the overall conditions for investment in Ireland, including policies to improve infrastructure, enhance competition, reform the tax system, improve the state sector's accountability and performance, and develop technical and vocational training capacity. This represents a broader, more integrated approach to industrial development and takes into account the various economic and institutional factors that collectively make for a competitive economic environment.

The follow-up "Moriarty Report"[14] contains recommendations for implementing Culliton's proposals and was endorsed by the Government in May 1993, setting deadlines for putting into place Moriarty's recommendations. As a result of the industrial policy review and follow-up, a number of important changes have been made in the substance, organisation and administration of industrial policy that will effect the climate for foreign investors in Ireland.

### *ii) The new industrial policy: programmes and policies*

The starting point for Ireland's new approach to industrial development and to foreign direct investment's role in this process is the recognition that, having put into place the macroeconomic framework for sustainable growth, a broader, more integrated approach to economic development would be needed.

Ireland's macroeconomic performance since 1987 has been good. From 1987-1990 Ireland was able to achieve rapid growth, stable inflation and an improving employment, export and balance-of-payments performance.[15] The deterioration in the international climate since 1990 has made progress on the macroeconomic front slower and more difficult, but Ireland's GDP nevertheless continues to expand between 2.5 and 3 per cent a year, well above the OECD average. Ireland's GNP growth of 3.5 per cent in 1992 was the highest in the European Community.[16] Unemployment remains high, however, and is policy-makers' most pressing preoccupation.

With a sound macroeconomic policy framework in place, the Irish authorities have determined that traditional instruments of industrial policy are no longer enough. Indeed, the more important factors affecting economic and direct investment performance – the level and structure of taxation, cost and quality of infrastructure, and the effectiveness of training and education – will be given greater emphasis under the new industrial policy. Irish-owned firms, in particular, will receive greater attention and support under the new policy.

As part of this new approach, Ireland's grants to foreign enterprises have come under closer evaluation and scrutiny, in part because foreign enterprises have not been able to prevent a rising unemployment rate that has remained well above the OECD and European average throughout the 1980s and 1990s, despite the substantial sums going to investment promotion.

There have also been concerns that grants have distorted the market for industrial finance and may have inhibited the development of commercial financial support for grant-aided firms. Another concern has been that the government's financial resources may not have been used to their full advantage, and that a more targeted use of funds is needed, in particular to develop industrial clusters by building on Ireland's competitive strengths. A final concern of the Irish authorities is what has been called the "grant mentality", whereby private investors assume that public assistance, financial and otherwise, will be provided for profit-making endeavours. Some OECD members have also questioned whether grant-related performance requirements have distorted the firms being aided, but the Irish Government believes the performance targets are needed to ensure that value is gotten for the substantial sums of money being spent.

The Government has instituted a number of changes in industrial policy and in the incentive system that will likely have implications for the investment climate in Ireland.

First, there will be greater emphasis on getting better value for money, and the Industrial Development Authority (IDA) and Department of Enterprise and Employment will continue to improve their capacity to evaluate the effects, particularly the employment effects, of projects receiving grant assistance. Grants will be more closely linked to job creation, and enterprises' performance in meeting these targets will be carefully scrutinised.

Grants will still be an important element in the investment promotion programme, as the Government continues to believe grants are needed to compete for internationally-mobile projects. This is particularly true given Ireland's small market and its location on the periphery of Europe, whose centre is moving east, according to the Irish authorities. Certain manufacturers' preference to be close to markets for just-in-time delivery is another factor that makes incentives important, according to the Irish experts. In sum, while grants are still seen to be needed, there will be more marked efforts to get greater value from the grant budget.

Ireland's Industrial Development Authority already has provisions in its incentive agreements to ensure that grant-aided firms meet their obligations to create and maintain jobs, export a significant percentage of their output and meet other requirements, but the Government wants to make even greater efforts to make the grants more cost-effective and to ensure strict adherence to grant budgets and employment targets. Before any grant payment is made the IDA must be satisfied that all conditions set out in the legal agreement have been met. In respect of employment grants, half the negotiated grant is paid on certification that the job exists, with the balance being paid one year later provided the job continues to exist. Progress on each project is monitored by an IDA executive who maintains regular contact with client companies and serves as a liaison between the company and IDA.

IDA also has recourse to "clawback" provisions under which a grant can be revoked or cancelled during a 10-year period if one or more of the following conditions is broken:

*a)* the company fails to complete the provision of the fixed assets within an agreed time period;
*b)* the company fails to comply to the satisfaction of the IDA with any of the conditions relating to the grant offer;
*c)* steps are taken to wind up the company;
*d)* a receiver is appointed over the company's property; and
*e)* the company, without the consent of the IDA, ceases to carry on the undertaking.

The clawback provisions are seldom invoked but are useful in ensuring that firms that come to Ireland do not take maximum advantage of the grants and then leave the market. This has happened in very few cases and the Irish authorities are confident that the clawback provisions have helped keep abuses to a very bare minimum. Year-on-year monitoring of firms' commitments under the grant system has also helped track grant-aided companies' performance in meeting their requirements. This enables the Irish authorities to identify potential problems early on and work with the firm to meet its performance criteria.

Another important element in the new approach to industrial development is a renewed and more focused effort to promote indigenous enterprises, an area where results have lagged behind FDI promotion. The greater part of Government expenditures on grants and other financial assistance has thus far been related to attracting foreign industry. Tax incentives generally have also benefited foreign firms more than indigenous firms. And other instruments of industrial policy including those in education, research and development, and industrial training also appear to have been more geared to the needs of overseas than indigenous industry.[17] Irish enterprise development is thus an area of high priority and represents a major thrust of the Government's new industrial policy. Indeed, it is recognised that indigenous enterprise performance has not kept up with the international sector, and the Irish economy is characterised by a sharp dichotomy between a dynamic foreign-owned sector and a slower growing traditional sector comprised of small-sized Irish firms.

One option being studied in the effort to develop competitive Irish enterprises involves "industrial clusters", where the Government will help identify a limited number of promising niches where Ireland seems to have a comparative advantage, and then provide direct support for firms in these activities. The food sector is frequently cited as one area where there has been significant growth for

local firms, and the Government is collaborating with the private sector to identify other possible sectors. This implies less emphasis on support for "high tech" foreign firms, which until now have been important targets for Irish investment promotion, but which have not developed many links with indigenous firms.

The government also plans to use more equity and fewer grants in promoting indigenous firms. The significant shift in orientation from grants towards equity and a refocusing of industrial promotion in favour of "industrial clusters" raises questions about the government's role in economic development, and whether this new approach will lead to more cost-effective support to industry. In particular, the decision that government agencies will take higher equity stakes in enterprises than is now customary suggests more direct intervention by the Irish government. The Irish authorities have made clear, however, that the state's purchase of direct equity and preference shares would not involve a major or controlling interest in local firms, but rather the emphasis would be on repayable forms of equity.

The Irish authorities have also said this new focus on Irish enterprise development will not have adverse consequences for foreign enterprises wishing to establish or expand in the Irish market, and that foreign firms will continue to receive support, particularly where the prospects for new job creation are strong. Irish and foreign firms that receive grants or other aid will be treated the same in the evaluation of their performance in meeting agreed criteria. Foreign firms will not be treated less favourably than in the past, nor less favourably than Irish companies. As is presently the case EC and non-EC companies will be treated equally. Nevertheless, it is clear that the government is becoming more selective regarding the types of foreign projects receiving grant aid, and is concentrating on projects which are likely to become closely integrated into the Irish economy.

### *iii) The new industrial policy: organisation and administration*

A major reorganisation of the government agencies responsible for industrial promotion has been undertaken which will effect the investment climate in Ireland. This reorganisation follows the merger in early 1993 of the Department of Industry and Commerce and the Department of Employment into a new Department of Enterprise and Employment, which is responsible for formulating and supervising the implementation of industrial policy.

substantial support from the EEC, continues to maintain an extensive system of grants to attract foreign capital. The 10 per cent corporate tax that applies to eligible manufacturing and internationally-traded services is clearly an important draw for potential foreign investors, and coupled with a wide array of grants enables Ireland to stay competitive in the race to attract mobile foreign capital. The incentive network's coverage is broad, both in terms of the kinds of investments that are eligible for support, and in the geographic areas where incentives may apply. Incentives are available nationally and not restricted to certain regions or locations, although preference may be given to investments in certain areas designated as disadvantaged. Grant-aided projects can either be greenfield investments or expansion of existing facilities.

The OECD Member countries have recognised the need to strengthen international co-operation in the area of investment incentives (and disincentives), and to take account of Member country interests affected by them. Member countries have agreed to make such measures as transparent as possible so that their scale and purpose could be easily determined (see the 1976 Declaration on International Investment and Multinational Enterprises and the 1984 Second Revised Decision on International Incentives and Disincentives).

The Irish authorities believe grants are needed to attract foreign investment into Ireland because of the country's peripheral location and small domestic market. At the same time they recognise that incentives can never substitute for sound economic policies, reliable infrastructure and a competitive workforce. The new industrial policy and investment plan for 1994-1999 addresses a number of important areas where improvements are needed, as in transport, training and energy. Still, the Irish government is well aware that competition for foreign investment is increasing and believes that Ireland must offer a competitive incentive package if it wants to attract internationally mobile capital.

By most accounts Ireland's investment promotion programme has helped bring foreign investment into Ireland. Eleven hundred foreign firms employing 95 000 people now account for over half of Ireland's industrial output and three-quarters of its manufactured exports.[20] The combination of these companies' Ir£1.5 billion annual wage bill and the Ir£2.4 billion spent by them each year on Irish services and components is an important factor in the Irish economy. Foreign companies have also helped transfer technology and skills and managerial expertise to Ireland.

The grants and other incentives are generally supported by the Irish public, who see foreign investment as making positive contributions to the Irish economy. A number of large international companies have established operations in less developed regions of Ireland where jobs are in great demand and wealth creation is a high priority. International firms are largely seen as good employers by the Irish public and are welcomed for the jobs and benefits they can offer. In cases where foreign firms have had to close the public reaction has generally been characterised as one of regret rather than resentment, and efforts have been made to bring new investors into the region.

### *ii) The incentives: taxes, grants and other assistance*

#### *a) Taxes*

A very important incentive for foreign investors is the 10 per cent corporate tax rate, which applies to eligible manufacturing and service industries and is significantly lower than the OECD average rate of around 30-35 per cent. The 10 per cent tax rate, which is available for both foreign and Irish firms, has been highlighted as the most important single element in the investment incentive package.

The 10 per cent corporate tax is available for most manufacturing industry in Ireland and for a wide range of non-manufacturing activities as well. Indeed, the 10 per cent rate has been extended by legislation over the years to include a wide variety of activities not normally associated with manufacturing, as in data processing and software development services, for example. Companies in the International Financial Services Centre in Dublin also qualify for the 10 per cent corporate tax rate, as do certain activities in the Shannon Free Zone. The 10 per cent rate applies to profits derived from the sale of goods manufactured in Ireland. Some consideration has been given to discontinuing the 10 per cent rate when it expires in 2010 but no decision has been made.

#### *b) Grants*

Grants are the most commonly used incentive to attract FDI in Ireland. Almost 80 per cent of foreign firms' new start ups in Ireland have been grant aided.[21] Ireland has been one of the most intensive giver of grants to industry in the EC. The EC Commission has concluded that at almost Ir£1 600 for each

person at work in manufacturing, Ireland's subsidisation of manufacturing from 1986-1988 exceeded the level in most other Member States, except Greece.

There are a number of different criteria for determining what kinds of projects are eligible for grant assistance, depending on the specific nature of the project. Projects are assessed for grant purposes according to the number and kind of jobs created and maintained, the value added, the product's export potential and other factors. The grant programme is a flexible one, tailored to the needs of individual projects. IDA Ireland, the main grant-giving agency, practices discretion as regards both the eligibility and the rate decision in order to concentrate assistance on viable, high value added, export-oriented industries. Target industries are chosen on the basis of growth potential, particularly in international markets, technological content and quality of employment.

More specifically, for all grant-aided projects the IDA must be satisfied that:

*i)* the project requires state funding;
*ii)* the proposed investment is commercially viable;
*iii)* the firm has an adequate equity base;
*iv)* the undertaking has a suitable company development plan;
*v)* the project will provide new employment or maintain employment in the state that would not have been maintained without public assistance, and will increase output and value added within the economy.

The wide range of grants are administered at the discretion of the Industrial Development Authority and a number of other development agencies. Indeed, some 50 different programmes for industry are being delivered by various government agencies. The new industrial policy attempts to rationalise and simplify these services. The following grants are available:

- Capital grants

Cash grants may be given towards the cost of fixed assets for both start up and expansion projects. Up to 60 per cent of fixed asset costs may be provided for eligible projects in certain areas designated as disadvantaged (largely in the western half of the country), while support of up to 45 per cent is available elsewhere. A 15 per cent limit applies nation-wide for the costs of fixed assets for expansion projects. Special incentives may be negotiated for very large projects. Grants are not repayable except in certain circumstances, such as a significant

change in the project's operations, disposal of grant-aided assets, or winding-up of the business. The actual level of grant aid depends on the project's return to the local economy measured in terms of wages and salaries, exports and number of jobs created. Qualifying assets include buildings, site development, buildings modifications, all equipment except transport-related items, and other assets which are fixed and relate solely to the project.

- Training grants

Cash grants may be awarded to pay up to 100 per cent of the costs of training operatives in start up companies, and up to 50 per cent for existing firms. The grants may cover the cost of trainees' wages during their training in Ireland, and where necessary, the travelling expenses, wages, and living costs of workers trained outside Ireland. Management training and the cost of instructors or consultants used to train personnel may also be covered. In addition, grants are available for approved training courses. Training grants are not generally available alongside employment grants and are usually given for greenfield projects.

- Employment grants

An employer in the manufacturing, services, or agriculture industry who increases his workforce over a base level of employment by recruiting eligible full-time employees may receive a payment for the additional employees, up to 24 weeks. Employment grants are negotiable and can vary with the kind of employment being created, however. Certain seasonal industries are subject to special examination and conditions.

- Research and development grants

Financial aid up to 50 per cent of expenditure on consulting, wages, travel, subsistence, patents, prototypes and technical assistance is provided to a maximum of Ir£250 000 per project or Ir£500 000 per company.

- Grants for feasibility studies

Financial aid up to 50 per cent of expenditure on wages, expenses, travel, consulting and prototype expenditure is available. To qualify the majority of work must be carried out within the state. Eligible studies include market research, preparation of costing and financial projections, and sourcing of raw materials. A feasibility study grant is available for new products only. The grant

depends on whether the product is geared primarily towards marketing or product development.

### c) *Other assistance*

In addition to grants and the attractive corporate tax rate, Ireland provides a number of other incentives to encourage foreign investors to establish or expand in the Irish market. This includes the provision of office and building sites which are made available by IDA, which has some 2 500 acres of industrial sites throughout the country. IDA also builds factories on its industrial estates or on single sites so that accommodation for new industry is readily available. Office developments have also been constructed for international service industries. Privately-sponsored estates are also available, mainly in the Dublin and Cork areas. A manufacturer may receive a grant to purchase or build a factory, or may rent a ready-built factory. Rent subsidies can be provided as an alternative to capital grants on buildings, with the current maximum level of aid being a 60 per cent subsidy for a duration of up to five years. Reduced rental rates can also be negotiated.

There is also an extensive support programme, including the company development and enterprise development programmes, which provide industrial promotion and assistance that includes technical and marketing support, most of which supports Irish-owned enterprises. These services are available, nevertheless, to foreign-controlled enterprises on a National Treatment basis.

## ***iii) International services: a priority sector***

Ireland's efforts to draw investment into the international service industries has met with considerable success. The services sector in Ireland now accounts for over half of GDP and 58 per cent of employment.[22] Employment creation is given priority, with non-repayable grants available to help the investor meet part of his payroll costs during the first year of operation. Projects will be considered for grants that are capable of penetrating international markets, contribute significantly to regional and national development, and would not have been developed in Ireland without the incentive package.

IDA's International Services programme covers a wide variety of service activities, including telemarketing, training services, data processing, healthcare, and software development. The Shannon Free Airport Development Company

also offers grant aid and other benefits for a number of service activities located in the Shannon area. In particular, support is offered to companies with significant airport orientation, such as aircraft management, trading, leasing or training. Aid is also available for financial services and for manufacturing operations.

Ireland is also actively pursuing foreign investment in a broad range of financial services operations such as collective fund management and corporate treasury management, and has set up a special regime to attract foreign investment in these and other trading operations. The International Financial Services Centre (IFSC) in Dublin was established in 1987 to bring in internationally mobile investment in such activities as portfolio and treasury management, insurance and reinsurance, dealing and brokerage operations, and back office operations like processing, clearing, information storage and accounting. The number of banking and financial institutions has increased significantly in recent years with the opening of the IFSC, and today Dublin is the base for 237 international financial companies.[23]

Investment incentives for companies operating in the centre include an immediate 100 per cent write-off of qualifying capital expenditure, a 10 per cent corporate tax rate on qualifying profits, and exemption from local property taxes for 10 years. To be eligible for the 10 per cent corporate tax incentive on profits a company must obtain a certificate from the Minister for Finance. It is essential that transactions are on behalf of non-residents of Ireland and do not involve Irish pounds.

A number of government agencies are responsible for supervising operations and activities in the centre. The Central Bank of Ireland, as the principal regulatory authority in the Irish financial system, is a key regulator of many activities in the IFSC. In fund management operations, for example, where the fund manager is carrying on a "banking business" within the meaning of the law, the Central Bank is the supervisory authority. The Central Bank is also the supervisory authority for the regulation of unit trusts and investment companies. Other financial activities in the centre are generally permitted to operate under an appropriate self-regulatory framework approved and monitored by the Central Bank. The Department of Enterprise and Employment is the regulatory authority responsible for licensing and supervising insurance activities in the centre. The Department of Finance alone has the power to issue licenses to operate in the IFSC. Companies operating in the centre require a certificate from the Minister of

Finance in order to be eligible for the 10 per cent corporate tax rate. IDA Ireland, while not a regulatory body, also has a role in helping firms establish in the centre, acting as the principal spokesman for firms wishing to set up in the centre. In fact, the first step for firms wishing to establish in the centre is to apply to IDA Ireland.

### *iv) The institutions that promote FDI in Ireland*

A number of agencies are responsible for different aspects of the government's programme of support to industry, including the promotion of inward direct investment. As explained earlier, these agencies are undergoing a major reorganisation. The Industrial Development Bill, 1993, created three new bodies for industrial development in Ireland, one of which, IDA Ireland, is solely responsible for the promotion of foreign direct investment. Another body, Forfas, will be responsible for overall policy co-ordination and administration. And a third, Forbairt, will help indigenous industry by bringing together IDA's local enterprise promotion function and that of Eolas, the agency responsible for technology support and assistance. The Shannon Free Airport Development Company will continue to assist export-oriented firms in the Shannon Free Zone. Udaras na Gaeltachta will be folded into Forbairt.

#### *a) The Industrial Development Agency*

The Industrial Development Agency (IDA Ireland) concentrates solely on foreign investment promotion. Its aim is to attract new overseas investment into Ireland, encourage existing foreign-controlled companies to expand and diversify their Irish operations, and integrate foreign companies more fully into the Irish economy.

IDA Ireland used to be part of the Industrial Development Authority (IDA), which was established in 1969 to promote industrial development in Ireland and was responsible for both Irish and foreign enterprise development. The IDA has 550 employees with 14 overseas offices in 8 countries and 8 regional offices in Ireland. It has an annual budget of Ir£120 million. Under the Industrial Development Bill's reorganisation the new IDA Ireland will have its own chief executive and board of directors. It is not expected that IDA Ireland's basic approach to FDI promotion will be fundamentally altered by the reorganisation. Overseas

offices will continue to operate as before and staffing will remain basically the same.

*b) The Shannon Free Airport Development Company*

Ireland's largest industrial estate, the Shannon Free Zone, is administered by the Shannon Free Airport Development Company (SFADCo). SFADCo offers grant aid packages similar to that offered by IDA for export oriented businesses locating in the Shannon Free Zone. Any company may apply to the Minister of Enterprise and Employment for a license to carry on activities in the Free Zone. Manufacturing and trading operations must meet certain criteria relating to the use or development of the airport.

*c) Udaras na Gaeltachta*

This agency was established by the Irish government to foster economic development in Irish-speaking areas of the country, which are located mostly along the west coast. As with IDA and SFADCo, Udaras can provide a number of grants, including employment and capital grants, and training and research and development grants. Rent and interest subsidies are also available. Under the reorganisation this agency will be part of Forbairt, the agency responsible for indigenous enterprise development.

## D. Privatisation, monopolies and the role of the state

State enterprises play an important role in Ireland, accounting for approximately 10 per cent of GNP and 7 per cent of total civilian employment.[24] The state continues to retain a large presence in the energy, steel, transport and communications sectors. It also owns some banking and insurance companies and is engaged in a number of other commercial endeavours such as hotels.

Postal services, telecommunications services, water, electricity and gas distribution and railways are public monopolies. Air services and maritime transport are mixed public/private monopolies. There are apparently no concession arrangements.[25]

State-owned enterprises were set up to upgrade the national infrastructure and promote economic development by engaging in tasks which, it was felt, private enterprise would not or could not effectively undertake. Social and politi-

cal constraints have often taken precedence over commercial considerations. For example, until the late 1980s state enterprises were exempted from the Restrictive Practices Act. Many state enterprises have been expected to provide services for social and strategic reasons and to generate and sustain jobs. State enterprises' pricing policies have sometimes been subject to political criteria and some investment decisions needed approval from the government.

The government recognises the problems that beset the state enterprise sector and has made attempts over the years to address them. There has been little recourse, however, to selling state enterprises. In the 1980s the government decided it could no longer support public companies in chronic difficulty such as those engaged in steel, sugar, fertiliser, and shipping, and state support was sharply curtailed. The reasons for this decision were largely budgetary as the state companies' losses were contributing heavily to the budget deficit. A number of other possibilities for improving state enterprises' performance and reducing their burden on the budget have been examined since the mid-1980s, with emphasis on the need to impose stricter financial conditions and allow the companies to operate in a more commercial manner, but with little serious consideration given to privatisation.

Part of the reason for the government's reticence to further privatise state owned companies is the perception that there is little demand for them. It is felt that there are relatively few state companies that would attract foreign buyers, in part because of financial and managerial difficulties that beset many state enterprises. Unlike some other OECD countries which have undertaken or will undertake large scale privatisations, the range of attractive state owned enterprises in Ireland is extremely limited.

Still, the Irish government has not been completely immune to the pressures for privatisation that came upon many OECD countries in the last several years and continue today. Like many OECD countries facing budgetary pressures, Ireland has sold off state firms when it seemed necessary and advantageous. Two large state enterprises were privatised during the last few years, for example, Irish Sugar Company (Greencore) and Irish Life. In addition, the B&I shipping company was privatised in 1992. The privatisations were undertaken by placing shares on the stock market, and there were no special rules or restrictions placed on foreign ownership of privatised firms. Shares were made available to foreigners and non-residents on the same terms and conditions as Irish nationals. In the

case of Irish Sugar Company, the state reduced its share of holdings from 100 per cent to 30 per cent during the 1990-1992 period, selling its remaining holdings to a French company in 1993. The state did maintain ''golden shares'' in both Irish Sugar Company and Irish Life, however.

Ireland's sale of state-owned firms over the last 5 years yielded some $500 million dollars and represented 0.3 per cent of its GDP. The value of these sales is low when compared to other OECD Members, but expressed in terms of GDP Ireland comes out somewhere in the middle of the OECD countries. In New Zealand, Portugal, the United Kingdom, Germany, Sweden, and Australia, the sale of state assets represented a larger part of GDP than in Ireland in the 1988-1992 period. New Zealand's sales of state firms, which raised $7.6 billion and were equivalent to an average of 3.6 per cent of GDP over the past five years, represented the largest part of GDP among OECD countries. Compared to Canada, the Netherlands, Austria, Japan, Spain, Denmark, Italy and France, however, Ireland's sale of state assets over the last 5 years were a larger part of its GDP.[26]

The current government is committed to a viable and profitable state commercial sector, and to the principle that any changes in ownership would take place only if it is in the public interest and in the best interest of the company and its employees, and following consultations with the social partners. This makes it unlikely that the current government will initiate full-scale sale of the state's assets in the productive sector, but it is not unlikely that consideration will be given to privatisation on a case-by-case basis. In the event that the government eventually decides to privatise one or more of its enterprises, it is also not unlikely that foreigners and non-residents will be able to participate in the privatisations on the same terms and conditions as Irish nationals, just as in the earlier privatisations of Greencore and Irish Life. Joint ventures between state-owned enterprises and private foreign investors will also be encouraged. So far no general consideration has been given to partial sales of state companies.

## E. Company practices and the regulatory environment

The costs faced by businesses in Ireland for a number of services have tended to be high, in part due to the relative absence of competitive forces. There is a recognition that in some areas firms, trades, professions, and public authori-

ties have restricted or limited competition through license mechanisms and other restrictive controls on entry, and that stronger policies are needed to eliminate such anti-competitive restrictions.

Licences and permits in some trades, professions and services have become very valuable commodities, and other restrictive practices have contributed to competitive price distortions in a number of service sector activities. Evidence of restrictive practices has been found in the engineering profession, for example, where some engineering bodies impose restrictions on their members concerning the content of advertisements, the quoting of fees and charges in advertising, and calls on non-clients. There has also been evidence of restrictive practices in the accounting profession and among architects, surveyors, auctioneers and estate agents, even though employment in some of these professions has increased as a proportion of total employment.[27]

The Irish authorities have made efforts to loosen restrictions that impede foreign and local entry into many of the service professions. The objective is to increase the efficiency and operation of market forces through the relaxation of controls, restrictions, licenses and other limitations that restrict entry of suitably qualified firms into trades, professions and services. The Competition Act of 1991 was enacted partially for this purpose. The Act sets up a Competition Authority, in place of the Fair Trade Commission, which grants exemptions for certain agreements, decisions and concerted practices notified to it, and makes investigations and reports as required by the Minister for Enterprise and Employment. One of the Authority's main functions is to investigate and adjudicate on applications for licenses and certificates. The Competition Authority has received over 1 100 notifications of concerted practices and is working to make decisions on these inquiries, but the process is time consuming and further measures may be required to address the issues raised by these inquiries.

There have also been questions about why the stock market in Ireland is underdeveloped and of the need to increase public confidence in the stock market and widen the corporate equity base. Only a very small minority of the top 100 Irish corporations are quoted on the Dublin stock exchange, while the top four companies account for 46 per cent of the market's total capitalisation. Indeed, only about 4 per cent of the adult population in Ireland own shares on the stock market. A number of reasons are put forward to explain the market's lack of development. To begin with, there has been an historical preference for

holding property assets in Ireland, where the rate of home ownership is very high. In addition, many firms in Ireland are private companies, preferring to keep control of their own affairs rather than be listed on the stock exchange. And finally, much of the Irish population is covered under pension funds which invest in the stock market.

The Companies Act introduced in 1990 is designed to make the management of companies more accountable and dealings on the stock exchange more transparent. The Act's disclosure provisions make it easier to determine companies' true ownership, and the Act also has penalties for insider trading that should help increase confidence in the stock market and open more possibilities for foreign involvement.

New legislation is soon expected for the Stock Exchange that would incorporate many of the EC Investment Services Directive's provisions. The new law is designed to update and enhance the supervisory arrangements that govern the stock market. Under the new rules the Central Bank would oversee the stock exchange operations. It is expected that there will be no discrimination as regards Irish and non-Irish companies becoming members of the stock exchange, and that foreign and Irish investors will be given equal treatment under the law.

## F. National security issues

Ireland has not reported any restrictive measures motivated by public order or essential security interests, and there are no apparent foreign investment restrictions based on this. it may be the case that private investment, both domestic and foreign, has been limited in the energy sector because of considerations about security of energy supply; indeed, the state's dominance in this sector has been justified in the past by a concern for the need to ensure access to dependable energy supplies. any restrictive measures in the energy sector apply equally to residents/nationals and to non-residents/foreigners.

The position regarding private investment in the energy sector, including private foreign investment, is being reconsidered, however, as the government looks for new ways to ensure stable energy supplies at competitive prices. No legislative action has been concluded but the general attitude towards foreign participation in the energy sector is more positive than in the past.

All private investment in armaments is prohibited, both for foreign and indigenous companies. There are no other areas where foreign investment is restricted for reasons of public order and security.

## G. Sectoral issues

Foreign firms have generally played an active role in banking and financial services in Ireland, although in some parts of the industry, like retail banking, foreign banks have not been very active. The government is trying to encourage FDI in a range of specialised financial and insurance activities, and has set up a special centre for this purpose. Enhancing the competitive environment in other parts of the Irish market, particularly in energy, telecommunications, and air, road and rail transport is an important objective of the new industrial policy. The aim is to increase the efficiency and operation of market forces in these activities and improve Ireland's industrial competitiveness.

### *i) Banking and financial services*

In line with a generally receptive attitude towards foreign investment, Ireland has traditionally welcomed foreign participation in the banking and financial services sector, and over the last 20 years foreign banks have established branches and subsidiaries in Ireland to service their multinational clients. Indeed, parts of the financial services industry have been characterised by increasing competition, as in corporate lending, where foreign banks have spurred competition.

Other parts of the financial services industry, however, have been characterised by a high degree of concentration. In retail banking, for example, where the dangers of oligopoly have been most marked, foreign banks have not been very active. There was until 1985 a cartel among the clearing banks that acted to regulate interest rates, bank charges, and working hours, subject to agreement by the Central Bank. This has now been abolished. Competition in the retail market has also been enhanced by the expansion of non-banking institutions such as building societies and pension and life insurance funds. Still, the major banks are seen to continue to have oligopolistic powers, and there is an administrative provision for maximum permitted lending rates to small businesses and the

personal sector. the Irish financial markets, too, have been characterised by a high degree of concentration in general, since the brokerage market has been protected by take-over restrictions.[28]

There are a number of possible reasons for the lack participation by foreign banks in the retail banking sector. One overriding factor is that the existing banks in Ireland have already established a wide network there, leaving only limited opportunity for competitors in the small Irish market. These institutions have long-standing relationships with local customers, who know and trust them. This situation acts as a deterrent to outside banking institutions, even though some foreign banks have entered the retail sector with some success. The deposit-taking business is extremely competitive in Ireland, with banks, building societies and the post office all providing deposit accounts. Retail lending activities are also very competitive, with banks and building societies and some foreign banks, mostly from Europe, engaging in retail lending. Money transmission services have not generally been great profit generators.

Ireland currently has reciprocity provisions that may apply to non-EC investments in banking and financial services. These provisions which in principle cover both branches and subsidiaries have never been used. Ireland's reciprocity provisions on subsidiaries have been overtaken by the EC Second Banking Directive. Ireland's reciprocity provisions under national law may be dropped or modified, but no action is expected until after the negotiations on services in the GATT are completed.

### *ii) Insurance*

The establishment of branches of insurance companies originating in non-EC member countries is subject to special deposit and other requirements. These requirements, which have been established for supervisory, prudential and consumer protection reasons are more stringent than for EC branches and agencies, for which harmonised rules exist. Ireland also has a reciprocity provision for establishment of branches of insurance companies by non-EC member firms. As with reciprocity in the banking and financial sector, these provisions have never been used. The reciprocity provisions under EC law now apply to the establishment of subsidiaries of third country insurance companies. The GATT negotiations on services may affect reciprocity provisions in this field.

### *iii) Energy*

Ireland's energy sector is characterised by the dominance of state enterprises, monopolistic practices, and government interventions. Electricity and gas distribution are public monopolies.[29] Concerns about security of supply have underpinned the State's dominance in the energy regime, but recently the Government has questioned whether such dominance is warranted. It has been agreed that a competitive, diversified energy market in Ireland need not lead to less secure access to supplies, and that open competition should be encouraged whenever possible. A number of proposals have been put forth to ensure an adequate supply of energy at competitive prices. These include ending the mandatory take-off of petroleum products from the state refinery, and encouraging private commercial interests to invest in electricity generation. No action has yet been taken on these proposals, however.

Given the restrictive nature of the energy regime in Ireland and the need to increase competition in the energy market, the Irish authorities may consider opening various activities in the energy sector to greater competition, including foreign competition. Foreign enterprises may play a larger role in the effort to diversify energy supplies in Ireland. In electricity generation, for example, there are plans to allow more competition but this would require new legislation to end the monopoly that now exists which has not yet been introduced.

### *iv) Telecommunications*

Telecommunications services are a public monopoly in Ireland.[30] National telephone services in Ireland are the exclusive privilege of Bord Telecom Eireann (BTE), and the provision of all international telephone services is subject to licensing. Ireland's charges for international telephone calls are higher than in many other EC countries, even though they have come down recently, and the Irish authorities are looking for ways to bring down the cost of overseas calls by introducing more competition in the telecommunications market. The current tariff system appears to discriminate against business users, and the Government has decided that phone tariffs should be brought into closer alignment with actual costs. The Department of Transport, Energy and Communications, the agency which regulates telecommunications services in Ireland, is making proposals for increasing competition in a range of telecommunications services, including the

introduction in June 1993 of a radical restructuring of the tariff system, and reselling service on lines leased from Telecom Eireann.

Voice services will remain a monopoly until the year 2003, under a derogation under EC law. Other forms of telecommunications, including data transmission, for example, are open to competition, including foreign competition. Mercury Telecommunications of the United Kingdom participates in data transmission services in Ireland, for example. Regarding other plans for opening the telecommunications sector to foreign participation, the Irish authorities have no plans at present although it is possible that voice services might be opened after the monopoly ends in 2003.

### *v) Air transport*

International access to and from Ireland is based on a network of bilateral and multilateral agreements governed by the principles of reciprocity and sovereignty of airspace. Within the EC, more liberal arrangements already apply to intra-EC routes whereby air carriers licensed within the EC have a general right to operate on any intra-EC route subject only to the availability of airport slots. Air cabotage is generally reserved to airlines licensed by the state, although EC carriers have limited rights to undertake cabotage where the service is preliminary to or an addition to an intra-Community service. Licenses are restricted to undertakings which are owned directly or through majority ownership by EC member States or nationals of member States.

Until 1986 the state-owned company, Aer Lingus, was the only large capacity air carrier in Ireland, although the absence of competition was seen to result more from lack of commercial interest than official policy. Deregulation began with the licensing of a second carrier, and in 1989 the government adopted a "two airline" policy for the regulation of air transport between Aer Lingus and Ryanair on the UK and European routes. With the completion of the EC Internal Market for air transport on 1 January 1993, this policy automatically lapsed.

Deregulation brought lower air fares and higher frequency of service, increasing air traffic and boosting tourism. Judged by the fall in the relative price of transport services, Ireland has achieved efficiency gains the transport services sector which have exceeded those for the EC at large.[31] The government believes increased competition in the air transport market has clearly stimulated air services in Ireland.

Ireland's main carrier, Aer Lingus, has recently been experiencing serious financial difficulties. In July 1993, the Government endorsed the broad strategy set out in the strategic plan for the future which was prepared by the Company. The main objective of the strategic plan is to return the core airline business to profitability.

A number of OECD countries are privatising their national airlines or engaging in strategic partnerships with airlines from other countries. Indeed, alliances of various types – financial, marketing or joint venture – are an increasing trend in the airline industry. While Aer Lingus operates from a position of strength on its core routes, the Company sees value in further developing them through alliances with other airlines. Aer Lingus has a number of marketing alliances in place but sees benefit in building further links with other carriers.

### *vi) Road and rail transport*

Road haulage was liberalised by the 1986 Transport Act. In principle, any operator that meets the required standard of professional competence may get an operating license. There are no price controls, rent controls, fee structures, or restraints on advertising in the road freight sector. Access to the international haulage market has been expanded and opportunities for the Irish road haulage industry widened. In practice most of the new competition in this sector has come from firms in Northern Ireland, which have easier access and greater familiarity with the Irish market.

Access to road passenger traffic in Ireland is more strictly regulated. The Road Transport Acts of 1932 and 1933 require private bus operators to hold licenses for scheduled road passenger services, and these licenses are only granted "in the public interest" and having regard to "other forms of passenger traffic available to the public" – a provision to protect the railways. Maximum bus and rail fares are controlled by the government and fare increases require Ministerial approval. Relatively few licenses have been issued to private bus operators and proposals are being been made to introduce more liberal legislation. No new legislation has been introduced, however. The Irish authorities have made a universal service obligation, whereby all regions of the country will have access to road transportation. In this regard there are difficulties about how to divide the routes between public and private operators so that the most travelled and profitable routes are divided evenly.

In fact, however, legal loopholes in the existing laws have already allowed the emergence of *de facto* private sector competition in long-distance bus services, and Irish Bus has responded by improving efficiency of its services.

### *vii) Shipping*

Foreign acquisition of Irish-registered shipping vessels is subject to reciprocity requirements and must be done through an enterprise incorporated in Ireland. There is no requirement that any director or shareholder of an Irish corporate body must be an Irish national. The need for a merchant shipping fleet is considered particularly important to an island nation, and the Irish authorities feel that for strategic reasons they need to maintain the present rules on foreign acquisition of Irish-registered shipping vessels. The reciprocity requirement has not been frequently used, nor has there been great demand to acquire Irish ships.

### *viii) Fishing*

Registration of fishing vessels requires ownership by a national citizen or company and a license to fish within the fishing limits. Sea fishing vessels registered in Ireland could not be acquired by non-Irish investors, but this has changed following recent European Court rulings on nationality requirements, and the right of ownership of fishing vessels must now be extended to EC nationals and bodies. The Irish authorities will amend the legislation to comply with the rulings by the EC Court of Justice. The new rules regarding acquisition of sea fishing vessels will apply in the same way to all foreign firms established in Ireland, but it is not planned to extend liberalisation to non-EC investors wishing to invest directly from outside the Community.

### *ix) Agricultural land*

Ireland is a country with a high economic dependence on agriculture and farmland is highly valued. Moreover, for historical and cultural reasons foreign investment in land, and particularly investment by non-residents, remains a sensitive issue for many. All corporate bodies, Irish and foreign, and all non-nationals (other than those resident in the country for at least seven years and EC nationals exercising the right of establishment under the Treaty of Rome) must seek written approval from the relevant authority to purchase "agricultural" land. The motivation behind the restriction on purchase of "agricultural"

land by non-qualified persons is to ensure a fair and equitable distribution of land to Irish nationals and long-term residents and to prevent the creation of a class of non-resident landowners.

The requirement for consent to purchase agricultural land applies to all persons who are not "qualified" persons. The term "qualified" person includes the following categories:

*i)* an Irish citizen;

*ii)* a person (other than a body corporate) who has been resident in Ireland for seven years or more;

*iii)* a person who is certified by the Minister for Industry and Commerce as having shown to its satisfaction that they are purchasing land exclusively for industrial purposes;

*iv)* a person certified by the Land Commission as having shown to its satisfaction that they are purchasing the interest for private residential purposes where the land involved does not exceed more than 2 hectares;

*v)* a citizen of a member state of the EC who is exercising the right of establishment under the Treaty of Rome.

*Chapter 4*

# Conclusions

By almost any standard foreign direct investment is important to the Irish economy. In terms of employment and employment growth, industrial output, productivity growth, the expansion and diversification of exports and the contribution to the Treasury foreign firms have contributed significantly to Ireland's economic growth and development.

There is no question that the early decision to welcome and support foreign firms has helped bring more FDI into the Irish economy, and with substantial benefits. It is also certain that the Irish Government will continue to encourage direct investment inflows through sound economic policy, a competitive workforce, better infrastructure and generous tax and financial incentives, and that investment promotion will continue to play an important role in Ireland's drive for industrial development. What is less certain is the extent to which public policy will continue to focus on foreign firms. Questions have been raised by the Irish authorities themselves about the amount of resources being used to bring investment into the country, the extent of Ireland's dependence on foreign firms for its industrial development, and the real impact of these firms on indigenous enterprise development.

Clearly, the financial resources going to foreign investors are substantial, with grant aid to new foreign firms running at about about Ir£50 million a year. Ireland gave some Ir£960 million in grant aid to foreign firms during the 1980s, not taking into account tax subsidies, which are substantial.[32] Ireland continues to be one of the largest givers of grants in the EEC, and this support to industry is not getting smaller. Spending under the National Development Plan during 1994-1999 will total more than Ir£20 billion, with over half going to industry,

training, transport and energy. This is more than twice what was spent during the previous five years. Only a portion of these monies will go directly to private foreign investors, but the size of the spending gives an indication of the magnitude of support for industrial development in Ireland.

The Irish authorities argue that while the absolute sums going to private foreign investors is large, FDI's net benefit to the Irish economy is larger. Still, the linkages between foreign and Irish-owned firms have not been as extensive as hoped and the dual economy continues, with a highly competitive, high-growth, foreign-owned sector accounting for a larger and larger part of the national product, and a declining, slow-growth, mostly Irish-owned sector falling farther behind. Job creation has not kept pace with job entrants, leaving Ireland with the second highest unemployment rate in Europe. Moreover, grant-aided investment flows into Ireland have been erratic, falling and rising throughout the last 10 years. This suggests that it is becoming more difficult to sustain the level of inflows that Ireland enjoyed in the past and that the country must rely more on its own capacities to generate economic growth.

The Irish Government's new industrial development policy seeks to address these problems by placing greater emphasis on local enterprises and infrastructure. Better transport and telecommunications, a workforce with more training and skills, and a broad-based pool of local managers and entrepreneurs may do more to help integrate foreign and Irish-owned firms than almost anything else. Foreign firms will still be encouraged through grants and other incentives to integrate their operations into the local economy, but more stress will be placed on developing local capacities than in the past.

There are other possibilities to enhance the foreign contribution to Ireland's economic well-being. Restrictions on non-EC investments in banking and financial services, insurance, flour milling, and the acquisition of land for agricultural purposes and of Irish-registered sea fishing vessels need to be reviewed. These restrictive measures seem somewhat anomalous given Ireland's long-standing policy of promoting investment from all countries. Reducing the state's presence in the energy, steel, transport and communications sectors and opening these activities to foreign investors, as many OECD countries have done and continue to do, could increase efficiency and reduce the state's financial burden while upgrading capacity and services. Finally, market access restrictions that impede competition and efficiency in a number of activities may require stronger compe-

tition law and policy to prevent various controls, restrictions and other practices from keeping out qualified firms.

As Ireland's infrastructure and local enterprise sector improve and grow, and as global economic activity picks up, foreign investors should find it easier and more advantageous to hire local workers and managers, buy local components, subcontract local suppliers and carry out a number of other activities at the local level. There may be more opportunity in these circumstances to rely less on grants and other incentives and more on Ireland's comparative advantage in the effort to attract and integrate mobile international capital into the Irish economy.

## Notes

1. *Industrial Development Authority Annual Report, 1991.*
2. *A Time for Change: Industrial Policy for the 1990s,* Report of the Industrial Policy Review Group, (The Culliton Report), January 1992.
3. *Ibid.*
4. Industrial Development Authority Annual Report 1992.
5. The office and data processing, pharmaceuticals, and foods sectors were particularly important to the increase in manufacturing output according to the *Central Bank of Ireland Quarterly Bulletin,* Spring 1993, and *Annual Report,* 1992.
6. This section is taken from a technical note submitted by the Irish authorities for the *International Direct Investment Statistics Yearbook,* OECD 1993, and from the discussion during Ireland's FDI examination in September 1993, on which this paper is based.
7. See *Detailed Benchmark Definition of Foreign Direct Investment,* 2nd Edition, OECD Paris, 1992.
8. *IDA Annual Report,* 1992, Industrial Development Authority of Ireland.
9. *Ibid.*
10. See *International Direct Investment Statistics Yearbook,* OECD Paris, 1993.
11. Official Memorandum submitted by the Irish Government for the examination of Ireland's FDI measures under the OECD Code of Liberalisation of Capital Movements and National Treatment Instrument, September, 1993.
12. Reported in the *Wall Street Journal* and the *Financial Times,* 12 October 1993.
13. *A Time for Change: Industrial Policy for the 1990s,* Report of the Industrial Policy Review Group, January 1992.
14. *Employment Through Enterprise,* The Response of the Government to the Moriarty Task Force on the Implementation of the Culliton Report, May 1993.
15. *OECD Economic Surveys: Ireland,* Paris, 1993.
16. *Central Bank of Ireland Quarterly Bulletin,* Autumn, 1993.
17. *A Time for Change: Industrial Policy for the 1990s,* Report of the Industrial Policy Review Group, January 1992.
18. See the Industrial Development Bill, 1993.

19. Address by the Minister for Enterprise and Employment, Mr. Ruairí Quinn T.D. to Seanad Eireann, July 1993.
20. *IDA Annual Report 1992.*
21. *A Time for Change: Industrial Policy for the 1990s,* Report of the Industrial Policy Review Group, January 1992.
22. *Ireland Information Memorandum,* National Treasury Management Agency, March 1993.
23. *Industrial Development Authority Annual Report,* 1992.
24. *OECD Economic Survey of Ireland,* 1993.
25. OECD paper on "Monopolies and Concessions," 14-15 June 1993, Paris.
26. The Economist, 19 June 1993.
27. *OECD Economic Survey of Ireland,* 1993.
28. *A Time for Change: Industrial Policy for the 1990s.*
29. *International Direct Investment: Policies and Trends in the 1980s,* OECD, 1992.
30. *Ibid.*
31. *OECD Economic Survey of Ireland,* 1993.
32. *A Time for Change: Industrial Policy for the 1990s.*

*Annex 1*

# Ireland's current position under the Code of Liberalisation of Capital Movements and the National Treatment Instrument

## Introduction

As a signatory to the OECD Code of Liberalisation of Capital Movements (the Code) and the National Treatment Instrument (NTI), Ireland has undertaken a number of obligations in the foreign direct investment field. This annex highlights the main provisions of these instruments as well as Ireland's position under them.

## The OECD commitments

The Code and the NTI are the two main instruments for co-operation among OECD Members countries in the field of foreign direct investment.

The Code, which has the legal status of OECD Council Decisions and is binding on all Member countries, covers the main aspects of the right of establishment for non-resident enterprises and requires OECD Members to progressively liberalise their investment regimes on a non-discriminatory basis and treat resident and non-resident investors alike.

The NTI is a "policy commitment" by Member countries to accord to established foreign-controlled enterprises treatment no less favourable than that accorded to domestic enterprises in like situations. While the NTI is a non-binding agreement among OECD Member countries, all measures constituting exceptions to this principle and any other measures which have a bearing on it must be reported to the OECD.

Member countries need not, however, to liberalise all their restrictions upon adherence to the above instruments. Rather, the goal of full liberalisation is to be achieved progressively over time. Accordingly, members unable to fully liberalise are permitted to maintain "reservations" to the Code of Capital Movements and "exceptions" to the NTI for outstanding foreign investment restrictions. These limitations to the liberalisation obligations may be lodged at the time a member adheres to the Codes, whenever specific obligations begin to apply to a member, or whenever new obligations are added to the instruments.

The investment obligations of the Code and the NTI are, in fact, complementary, both dealing with the laws, policies and practices of Member countries in the field of direct investment. However, the Code addresses the subject from the point of view of non-resident investors in an OECD host country, while the NTI is concerned with the rights of established foreign-controlled enterprises. Limitations on non-resident (as opposed to resident) investors affecting the enterprises' operations and other requirements set at the time of entry or establishment are covered by the Code. The investment operations of foreign-controlled enterprises after entry, including new investment, is covered by the National Treatment Instrument.

Measures pertaining to **subsidiaries** fall under the purview of the Code or the NTI, depending on whether they set conditions on entry/establishment or concern the activities of foreign-controlled enterprises already established. As to **branches,** the *1991 Review* of the *OECD Declaration and Decisions on International Investment and Multinational Enterprises* introduced a distinction between "direct" branches of non-resident enterprises and "indirect" branches, that is branches of already established foreign-controlled enterprises. The latter are subject to all the five categories of measures covered by the NTI (investment by established enterprises, government procurement, official aids and subsidies, access to local financing and tax obligations). The investment activities of "direct" branches of non-resident enterprises, which concerns the category of measures covered by the NTI, fall however, exclusively under the purview of the Code.

The Committee on Capital Movements and Invisible Transactions and the Committee on International Investment and Multinational Enterprises together conduct country examinations of Member country measures covered by these OECD commitments. These examinations involve a face to face discussion between representatives of the two Committees and experts from the country being examined. The discussion is based on submission by the Member concerned and a document prepared by the Secretariat. The objective is to clarify the nature and purpose of remaining restrictions and to identify possible areas for further liberalisation. The examinations usually conclude with modifications to the Member country's position and recommendations by the OECD Council to the Member's authorities concerning the future direction of the country's foreign direct investment policies.

## Ireland's position under the Code and the National Treatment Instrument

Ireland's liberal policy towards foreign investment is reflected in the relatively small number and narrow nature of its reservations and exceptions under the Code and NTI. Still, there are a number of areas where restrictions apply and where the Irish autorities wish to retain reservations and exceptions under the two investment instruments.

In the course of the examination carried out by the CMIT and CIME in 1993, Ireland proposed to delete one reservation and narrow several others to reflect liberalisations for investment by EC nationals and companies. It was agreed to add several exceptions in the National Treatment Instrument to maintain consistency with Ireland's reservations under the Capital Movements Code. As shown in the attached list Ireland's reservations and exceptions are now essentially confined to investment by non-EC entities in air transport,

acquisition of land for agricultural purposes, acquisition of Irish-registered sea fishing vessels and flour milling activities. In addition reciprocity provisions apply to non-EC investment in banking and financial services and establishment of insurance company branches, and to acquisition by any foreign investors of Irish-registered shipping vessels.

### *a) Ireland's current FDI reservations and reciprocity entries under the Capital Movements Code*

1. "List A, Direct investment:
   I/A
   - In the country concerned by non-residents.
     Remark: the reservation applies only to:
     *i)* Investment in air transport by non-EC States or nationals of non-EC States.
     *ii)* Acquisition by non-EC nationals of land for agricultural purposes, unless an authorisation is granted.
     *iii)* Acquisition of Irish-registered shipping vessels except through an enterprise incorporated in Ireland.
     *iv)* Acquisition by non-EC nationals of sea fishing vessels registered in Ireland.
     *v)* Investment by residents of non-EC member countries in flour milling activities."

2. Ireland's reciprocity entries in Annex E of the Capital Movements Code are as follows:

   "*i)* Investment in the banking and financial service sectors by investors from non-EC member countries may be subject to reciprocity considerations.
   *ii)* Establishment of branches of insurance companies originating in non-EC member countries may be subject to reciprocity considerations.
   *iii)* Foreign acquisition of shipping vessels registered in Ireland is subject to a reciprocity requirement."

### *b) Ireland's current position under the National Treatment Instrument*

## A. Exceptions at national level

## I. Investment by established foreign-controlled enterprises

*Air transport*

Cabotage is generally reserved to airlines licensed in the state, and direct investment in air transport by non-EC States or nationals of non-EC States may be restricted.

*Fishing*

Registration of fishing vessels requires ownership by citizen or companies from an EC member state and a license to fish within Irish fishing limits. The acquisition by non-EC nationals of sea fishing vessels registered in Ireland may be restricted.

*Land for agricultural purposes*

Acquisition by non-EC nationals of land for agricultural purposes may be restricted.

*Flour milling activities*

Investment in flour milling activities by enterprises controlled by non-EC nationals may be restricted.

**II. Official aids and subsidies**

None.

**III. Tax obligations**

None.

**IV. Government purchasing**

None.

**V. Access to local finance**

None.

**B. Exceptions by territorial subdivisions**

None.

*c) Ireland's current transparency measures under the National Treatment Instrument*

**A. Transparency measures at the level of national government**

None.

**B. Measures reported for transparency at the level of territorial subdivisions**

None.

*Annex 2*

# Chronology of main events affecting foreign direct investment 1989-1993

## 1989

### March

The Government announces the National Development Plan 1989-1993, setting out structural measures which Ireland proposes to implement with the assistance of the European Community Structural Fund. The major points include:

- The Ir£9.1 billion spending programme over 5 years involves Ir£3.6 billion in state spending, Ir£3.35 billion from the EC structural funds and Ir£2.14 billion from the private sector.
- The private sector contribution includes a L£1.8 billion in manufacturing industry projects and over Ir£300 million in tourism projects, agriculture and roads.

### May

The Central Bank Bill 1988 passes the Lower House of Parliament. The Bill deals with the administration of the Bank and its function and powers. Provision is made to extend the Bank's supervisory role to companies operating in the International Financial Services Centre.

### July

The Central Bank Bill 1988 (now known as the Central Bank Act, 1989) becomes law with the exception of certain sections which are to be implemented in September and November. The Building Societies Bill 1988 (now known as the Building Societies Act, 1989) is enacted and the Central Bank assumes responsibility for supervising the Building Societies as from 1 September 1989.

### September

Community Support Framework adopted by EC Commission for the period 1 January 1989 to 31 December 1993. ECU 1.6 billion from the Social Fund is committed

to Ireland. ERDF assistance of ECU 1.3 billion is also made available, plus ECU 645 million under FEOGA.

## 1990

### January

The standard rate of corporate tax to be reduced from 43 to 40 per cent from 1 April 1991. The top rate of capital gains tax is reduced from 60 to 50 per cent.

The third phase of the programme to eliminate exchange controls is implemented. This further reduces administrative requirements and permits greater access to some innovative financial instruments.

### April

Irish pound loans may be provided to non-resident controlled entities or directly to non-residents to finance expenditure in Ireland on direct investments, including purchases of residential or commercial property.

Direct investment in the State, where total finance costs amount to Ir£1 million or less, no longer requires permission.

Irish pound lending to non-EC residents to finance direct investment in Ireland is no longer restricted.

### December

The Minister of Finance announces the extension to 2005 of the 10 per cent corporate tax for projects in the International Financial Services Centre and the Shannon Customs-Free Airport Zone.

## 1991

### January

Agreement is reached between Government and representatives of employers, trade unions and farmers on a Programme for Economic and Social Progress.

The time limit for approvals for new firms setting up in the International Financial Services Centre is extended to end-1994. The 10 per cent corporate tax rate for companies in the centre is extended to end-2005.

It is announced that the Irish Life Assurance Company will be floated on the Irish stock market in 1991.

Financial institutions permitted to make long term financial loans in Irish pounds available to non-residents for any purpose. Such loans, which must be for five year periods, are in addition to the Irish pound facilities which may be made available to non-

residents for the purposes of financing trade with Irish residents, direct investment expenditure in Ireland, or purchase of residential property in Ireland.

### February

Irish employers and trade unions accept terms of Programme for Economic and Social Progress.

## 1992

### January

The Industrial Policy Review Group reports (Culliton Report).

Financial Institutions are permitted to make medium to long-term financial loans in Irish pounds available to non-residents. Such loans must be for a period of one year or more and are additional to the Irish pound facilities which may be made available to non-residents for the purpose of financing trade with Irish residents, direct investment expenditure in Ireland, or purchase of residential property in Ireland.

### June

The Treaty on European Union, as agreed by the European Council Meeting in Maastricht in December 1991, is approved in a referendum by the Irish people.

## 1993

### January

Following the General Election of 25 November 1992, a Fianna Fail-Labour partnership government, with Mr. Albert Reynolds as Taoiseach (Prime Minister), takes office.

A government sub-committee is established to consider the detailed recommendations, agree target dates and objectives for the introduction of specific policies and changes arising from three reports of the Task Force set up to advise on the implementation of the Culliton Report.

Ireland's Exchange Control legislation lapsed at midnight on 31 December 1992. With effect from 1 January 1993 all remaining exchange control restrictions are removed. As a result of the removal of exchange controls there are no restrictions or reporting requirements concerning direct investment in Ireland by non-residents.

*Annex 3*

# Statistics on direct investment flows in OECD countries

## Table 1. Foreign direct investment in OECD countries: inflows 1971-1992

US$ million

| | Cumulative flows | | Flows of foreign direct investment | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971-1980 | 1981-1990 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
| Australia | 11 295 | 38 902 | 2 349 | 2 286 | 2 994 | 428 | 2 099 | 3 457 | 3 852 | 7 599 | 7 289 | 6 549 | 4 763 | 4 641 |
| Austria | 1 455 | 3 276 | 318 | 206 | 220 | 117 | 168 | 182 | 403 | 437 | 578 | 647 | 359 | 888 |
| Belgium-Luxembourg[1] | 9 215 | 27 537 | 1 352 | 1 390 | 1 271 | 360 | 957 | 631 | 2 338 | 4 990 | 6 731 | 7 517 | 8 923 | 10 786 |
| Canada | 5 534 | 11 448 | –3 670 | –831 | 243 | 1 313 | –2 050 | 990 | 3 469 | 3 614 | 1 773 | 6 597 | 6 544 | 4 963 |
| Denmark | 1 561 | 3 387 | 100 | 135 | 64 | 9 | 109 | 161 | 88 | 504 | 1 084 | 1 133 | 1 530 | 1 015 |
| Finland | 376 | 2 837 | 99 | –4 | 84 | 138 | 110 | 340 | 265 | 530 | 488 | 787 | –247 | 180 |
| France[1] | 16 908 | 43 194 | 2 426 | 1 563 | 1 631 | 2 198 | 2 210 | 2 749 | 4 621 | 7 204 | 9 552 | 9 040 | 11 073 | 15 928 |
| Germany[1] | 13 969 | 17 826 | 341 | 819 | 1 774 | 553 | 587 | 1 191 | 1 900 | 1 202 | 7 126 | 2 333 | 3 723 | 3 869 |
| Greece | .. | 6 145 | 520 | 436 | 439 | 485 | 447 | 471 | 683 | 907 | 752 | 1 005 | 1 135 | 1 144 |
| Iceland[1] | .. | 12 | .. | .. | .. | 14 | 23 | 8 | 2 | –14 | –27 | 6 | 35 | 17 |
| Ireland | 1 659 | 1 212 | 204 | 241 | 168 | 119 | 159 | –43 | 89 | 91 | 85 | 99 | 97 | 102 |
| Italy[1] | 5 698 | 24 888 | 1 153 | 605 | 1 200 | 1 329 | 1 071 | –21 | 4 144 | 6 882 | 2 181 | 6 344 | 2 481 | 3 161 |
| Japan[1] | 1 424 | 3 281 | 189 | 439 | 416 | –10 | 642 | 226 | 1 165 | –485 | –1 054 | 1 753 | 1 368 | 2 728 |
| Netherlands | 10 822 | 27 831 | 1 520 | 965 | 757 | 587 | 641 | 1 861 | 2 307 | 4 077 | 6 370 | 8 746 | 5 156 | 5 144 |
| New Zealand | 2 598 | 3 945 | 177 | 275 | 243 | 119 | 227 | 390 | 238 | 156 | 434 | 1 686 | 1 724 | .. |
| Norway | 3 074 | 4 708 | 686 | 424 | 336 | –210 | –412 | 1 023 | 184 | 285 | 1 511 | 881 | –338 | 869 |
| Portugal[2] | 535 | 6 256 | 177 | 145 | 150 | 170 | 218 | 166 | 367 | 692 | 1 577 | 2 594 | 3 168 | 2 994 |
| Spain[1] | 7 060 | 46 000 | 1 714 | 1 801 | 1 647 | 1 773 | 1 945 | 3 442 | 4 548 | 7 016 | 8 433 | 13 681 | 10 423 | 8 114 |
| Sweden | 897 | 7 989 | 182 | 357 | 223 | 289 | 398 | 952 | 599 | 1 499 | 1 530 | 1 960 | 5 727 | 300 |
| Switzerland | .. | 12 425 | .. | .. | 286 | 520 | 1 050 | 1 778 | 2 044 | 42 | 2 254 | 4 451 | 1 996 | .. |
| Turkey[3] | 228 | 2 356 | 95 | 55 | 46 | 113 | 99 | 125 | 106 | 354 | 663 | 700 | 810 | 844 |
| United Kingdom | 40 503 | 130 479 | 5 891 | 5 286 | 5 132 | –241 | 5 782 | 8 557 | 15 450 | 21 356 | 30 369 | 32 897 | 15 933 | 18 156 |
| United States | 56 276 | 368 309 | 25 195 | 13 810 | 11 518 | 25 567 | 20 490 | 36 145 | 59 581 | 58 571 | 69 010 | 48 422 | 25 446 | 3 388 |
| **Total** | **188 249** | **794 243** | **41 018** | **30 403** | **30 842** | **35 740** | **36 970** | **64 781** | **108 443** | **127 509** | **158 709** | **159 828** | **111 829** | **89 231** |

1. Reinvested earnings are not included in national statistics.
2. Figures for Portugal are only available from 1975 onward.
3. Cumulated inflows since 1954.

*Source:* OECD/DAF – Based on official national statistics from the balance of payments converted in US$ at daily average exchange rate.

## Table 2. **Foreign direct investment in OECD countries: inflows 1981-1992**

As a percentage of GDP

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 1.4 | 1.4 | 1.8 | 0.2 | 1.3 | 2.1 | 2.0 | 3.0 | 2.6 | 2.2 | 1.6 | 1.6 |
| Austria | 0.5 | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 | 0.3 | 0.3 | 0.5 | 0.4 | 0.2 | 0.5 |
| Belgium-Luxembourg[1] | 1.3 | 1.6 | 1.5 | 0.4 | 1.1 | 0.5 | 1.6 | 3.2 | 4.2 | 3.7 | 4.3 | 4.7 |
| Canada | –1.2 | –0.3 | 0.1 | 0.4 | –0.6 | 0.3 | 0.8 | 0.7 | 0.3 | 1.2 | 1.1 | 0.9 |
| Denmark | 0.2 | 0.2 | 0.1 | 0.0 | 0.2 | 0.2 | 0.1 | 0.5 | 1.0 | 0.9 | 1.2 | 0.7 |
| Finland | 0.2 | 0.0 | 0.2 | 0.3 | 0.2 | 0.5 | 0.3 | 0.5 | 0.4 | 0.6 | –0.2 | 0.2 |
| France[1] | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.5 | 0.7 | 1.0 | 0.8 | 0.9 | 1.2 |
| Germany[1] | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.6 | 0.2 | 0.2 | 0.2 |
| Greece | 1.4 | 1.1 | 1.3 | 1.4 | 1.3 | 1.2 | 1.5 | 1.7 | 1.4 | 1.5 | 1.6 | 1.5 |
| Iceland[1] | 0.0 | 0.0 | 0.0 | 0.5 | 0.8 | 0.2 | 0.0 | –0.2 | –0.5 | 0.1 | 0.5 | 0.3 |
| Ireland | 1.1 | 1.3 | 0.9 | 0.7 | 0.8 | –0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Italy[1] | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | –0.0 | 0.5 | 0.8 | 0.3 | 0.6 | 0.2 | 0.3 |
| Japan[1] | 0.0 | 0.0 | 0.0 | –0.0 | 0.0 | 0.0 | 0.0 | –0.0 | –0.0 | 0.1 | 0.0 | 0.1 |
| Netherlands | 1.1 | 0.7 | 0.6 | 0.5 | 0.5 | 1.0 | 1.1 | 1.8 | 2.8 | 3.1 | 1.8 | 1.6 |
| New Zealand | 0.7 | 1.2 | 1.0 | 0.5 | 1.0 | 1.4 | 0.7 | 0.4 | 1.0 | 3.9 | 4.1 | .. |
| Norway | 1.2 | 0.8 | 0.6 | –0.4 | –0.7 | 1.5 | 0.2 | 0.3 | 1.7 | 0.8 | –0.3 | 0.8 |
| Portugal | 0.7 | 0.6 | 0.7 | 0.9 | 1.1 | 0.6 | 1.0 | 1.7 | 3.5 | 4.3 | 4.6 | 3.6 |
| Spain[1] | 0.9 | 1.0 | 1.0 | 1.1 | 1.2 | 1.5 | 1.6 | 2.0 | 2.2 | 2.8 | 2.0 | 1.4 |
| Sweden | 0.2 | 0.4 | 0.2 | 0.3 | 0.4 | 0.7 | 0.4 | 0.8 | 0.8 | 0.9 | 2.4 | 0.1 |
| Switzerland | 0.0 | 0.0 | 0.3 | 0.6 | 1.1 | 1.3 | 1.2 | 0.0 | 1.3 | 2.0 | 0.9 | .. |
| Turkey | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.5 | 0.8 | 0.6 | 0.7 | 0.8 |
| United Kingdom | 1.2 | 1.1 | 1.1 | –0.1 | 1.3 | 1.5 | 2.2 | 2.6 | 3.6 | 3.4 | 1.6 | 1.7 |
| United States | 0.8 | 0.4 | 0.3 | 0.7 | 0.5 | 0.9 | 1.3 | 1.2 | 1.3 | 0.9 | 0.5 | 0.1 |

1. Reinvested earnings are not included in national statistics.
*Source:* OECD/DAF – Based on official national statistics from the balance of payments.

## Table 3. **Direct investment abroad from OECD countries: outflows 1971-1992**

US$ million

| | Cumulative flows | | Flows of direct investment abroad | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971-1980 | 1981-1990 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
| Australia | 2 510 | 22 610 | 734 | 693 | 518 | 1 403 | 1 887 | 3 419 | 4 981 | 4 860 | 2 831 | 1 284 | 2 026 | -629 |
| Austria | 578 | 4 132 | 206 | 142 | 190 | 68 | 74 | 313 | 312 | 309 | 855 | 1 663 | 1 288 | 1 959 |
| Belgium-Luxembourg[1] | 3 213 | 20 811 | 30 | -77 | 358 | 282 | 231 | 1 627 | 2 680 | 3 609 | 6 114 | 5 957 | 6 068 | 10 889 |
| Canada | 11 335 | 39 571 | 5 756 | 709 | 2 758 | 2 277 | 2 855 | 4 066 | 7 069 | 5 278 | 4 603 | 4 200 | 5 409 | 3 723 |
| Denmark | 1 063 | 6 292 | 141 | 77 | 159 | 93 | 303 | 646 | 618 | 719 | 2 027 | 1 509 | 1 851 | 2 225 |
| Finland | 605 | 12 150 | 129 | 85 | 143 | 493 | 352 | 810 | 1 141 | 2 608 | 3 106 | 3 283 | 1 064 | 974 |
| France[1] | 13 940 | 85 810 | 4 615 | 3 063 | 1 841 | 2 126 | 2 226 | 5 230 | 8 704 | 12 756 | 18 137 | 27 112 | 20 529 | 18 816 |
| Germany[1] | 24 846 | 86 506 | 3 860 | 2 479 | 3 168 | 4 390 | 4 806 | 9 621 | 9 100 | 11 416 | 14 538 | 23 128 | 22 334 | 17 987 |
| Iceland[1] | .. | 27 | .. | .. | .. | .. | .. | 2 | 7 | 1 | 8 | 9 | 10 | 27 |
| Italy[1] | 3 597 | 28 707 | 1 425 | 1 025 | 2 133 | 2 012 | 1 820 | 2 652 | 2 339 | 5 554 | 2 135 | 7 612 | 7 326 | 5 956 |
| Japan[1] | 18 052 | 185 826 | 4 894 | 4 540 | 3 612 | 5 965 | 6 452 | 14 480 | 19 519 | 34 210 | 44 130 | 48 024 | 30 726 | 17 222 |
| Netherlands | 27 829 | 52 797 | 3 629 | 2 610 | 2 098 | 2 530 | 2 829 | 3 147 | 7 087 | 4 073 | 11 521 | 13 273 | 12 177 | 11 049 |
| New Zealand | 375 | 4 563 | 103 | 87 | 404 | 31 | 174 | 87 | 562 | 615 | 135 | 2 365 | 528 | .. |
| Norway | 1 079 | 8 943 | 185 | 317 | 360 | 612 | 1 228 | 1 605 | 890 | 968 | 1 352 | 1 426 | 1 804 | 437 |
| Portugal[2] | 21 | 374 | 16 | 9 | 17 | 8 | 15 | -2 | -16 | 77 | 85 | 165 | 474 | 719 |
| Spain[1] | 1 274 | 8 277 | 272 | 505 | 245 | 249 | 252 | 457 | 754 | 1 228 | 1 470 | 2 845 | 3 573 | 1 271 |
| Sweden | 4 597 | 46 178 | 854 | 1 237 | 1 461 | 1 506 | 1 783 | 3 723 | 4 522 | 7 226 | 9 796 | 14 070 | 6 802 | 1 401 |
| Switzerland | .. | 31 862 | .. | .. | 492 | 1 139 | 4 572 | 1 461 | 1 274 | 8 696 | 7 852 | 6 376 | 4 502 | .. |
| Turkey[3] | .. | 273 | .. | .. | .. | .. | .. | .. | 27 | 8 | 56 | 182 | 27 | 65 |
| United Kingdom | 55 112 | 186 026 | 12 065 | 7 145 | 8 211 | 8 031 | 10 842 | 17 119 | 31 458 | 37 254 | 35 172 | 18 729 | 15 597 | 16 543 |
| United States | 134 354 | 171 626 | 9 623 | 1 078 | 6 686 | 11 649 | 12 724 | 17 706 | 28 980 | 17 871 | 37 604 | 27 705 | 32 098 | 37 122 |
| **Total** | **302 306** | **1 003 361** | **48 537** | **25 724** | **34 854** | **44 864** | **55 425** | **88 169** | **132 008** | **159 336** | **203 527** | **210 917** | **176 213** | **147 756** |

1. Reinvested earnings are not included in national statistics.
2. Figures for Portugal are only available from 1975 onward.
3. Includes cumulative investment since 1954.

*Source:* OECD/DAF – Based on official national statistics from the balance of payments converted in US$ at daily average exchange rate.

Table 4. **Direct investment abroad from OECD countries: outflows 1981-1992**

As a percentage of GDP

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 0.4 | 0.4 | 0.3 | 0.8 | 1.2 | 2.0 | 2.5 | 2.0 | 1.0 | 0.4 | 0.7 | –0.2 |
| Austria | 0.3 | 0.2 | 0.3 | 0.1 | 0.1 | 0.3 | 0.3 | 0.2 | 0.7 | 1.0 | 0.8 | 1.1 |
| Belgium-Luxembourg[1] | 0.0 | –0.1 | 0.4 | 0.4 | 0.3 | 1.4 | 1.8 | 2.3 | 3.8 | 3.0 | 2.9 | 4.7 |
| Canada | 2.0 | 0.2 | 0.8 | 0.7 | 0.8 | 1.1 | 1.7 | 1.1 | 0.8 | 0.7 | 0.9 | 0.7 |
| Denmark | 0.2 | 0.1 | 0.3 | 0.2 | 0.5 | 0.8 | 0.6 | 0.7 | 1.9 | 1.2 | 1.4 | 1.6 |
| Finland | 0.3 | 0.2 | 0.3 | 1.0 | 0.7 | 1.2 | 1.3 | 2.5 | 2.7 | 2.4 | 0.9 | 0.9 |
| France[1] | 0.8 | 0.6 | 0.4 | 0.4 | 0.4 | 0.7 | 1.0 | 1.3 | 1.9 | 2.3 | 1.7 | 1.4 |
| Germany[1] | 0.6 | 0.4 | 0.5 | 0.7 | 0.8 | 1.1 | 0.8 | 1.0 | 1.2 | 1.5 | 1.4 | 1.0 |
| Iceland[1] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.2 | 0.4 |
| Italy[1] | 0.3 | 0.3 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 | 0.7 | 0.2 | 0.7 | 0.6 | 0.5 |
| Japan[1] | 0.4 | 0.4 | 0.3 | 0.5 | 0.5 | 0.7 | 0.8 | 1.2 | 1.5 | 1.6 | 0.9 | 0.5 |
| Netherlands | 2.5 | 1.9 | 1.5 | 2.0 | 2.2 | 1.8 | 3.3 | 1.8 | 5.0 | 4.7 | 4.2 | 3.4 |
| New Zealand | 0.4 | 0.4 | 1.7 | 0.1 | 0.8 | 0.3 | 1.5 | 1.4 | 0.3 | 5.4 | 1.3 | . . |
| Norway | 0.3 | 0.6 | 0.7 | 1.1 | 2.1 | 2.3 | 1.1 | 1.1 | 1.5 | 1.4 | 1.7 | 0.4 |
| Portugal | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | –0.0 | 0.2 | 0.2 | 0.3 | 0.7 | 0.9 |
| Spain[1] | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 | 0.4 | 0.6 | 0.7 | 0.2 |
| Sweden | 0.7 | 1.2 | 1.6 | 1.6 | 1.8 | 2.8 | 2.8 | 4.0 | 5.1 | 6.1 | 2.8 | 0.6 |
| Switzerland | 0.0 | 0.0 | 0.5 | 1.3 | 4.9 | 1.1 | 0.7 | 4.7 | 4.4 | 2.8 | 1.9 | . . |
| Turkey | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.0 | 0.1 |
| United Kingdom | 2.4 | 1.5 | 1.8 | 1.9 | 2.4 | 3.0 | 4.6 | 4.5 | 4.2 | 1.9 | 1.5 | 1.6 |
| United States | 0.3 | 0.0 | 0.2 | 0.3 | 0.3 | 0.4 | 0.6 | 0.4 | 0.7 | 0.5 | 0.6 | 0.6 |

1. Reinvested earnings are not included in national statistics.

*Source:* OECD/DAF – Based on official national statistics from the balance of payments.

*Annexe 4*

# References

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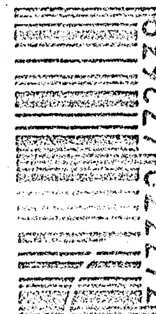
# OECD REVIEWS OF FOREIGN DIRECT INVESTMENT

# IRELAND

With one of the OECD's smallest and most open economies, Ireland welcomes foreign direct investment (FDI) and offers grants and tax incentives to attract investors. Direct investment plays a unique role in the Irish economy, accounting for a larger part of its manufacturing output, employment and exports than in most other OECD countries. Still, the cost of attracting foreign investment has come under greater scrutiny and questions have been raised about whether too much emphasis has gone to promoting foreign investment and not enough to developing local enterprises. The government is trying to address this by helping local businesses develop greater links with the international sector, and has reorganised its industrial development programme with this in mind.

This study examines the role of direct investment in the Irish economy, Ireland's policies towards FDI, and the implications of Ireland's new industrial policy for foreign investors.



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