**Ibec Business Leaders Conference 2017**
**The Convention Centre, Dublin**
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**Ibec CEO Danny McCoy**

Thank you Claire, and let me start by adding my own welcome and thank you all for joining us here today.

I want to particularly thank the President for being with us this morning. It's a real honour to have you here and many of the points you made resonate very strongly with the business community.

Before I continue, I also want also to thank our event partners Accenture, Merc Partners, and Vodafone for their support.

I've no doubt it will be a really enjoyable and thought-provoking day. There's certainly no shortage of big issues facing business to capture the imagination.

From the perspective of business there are always pressing challenges, always fresh opportunities.

You deal with them every day in your own businesses, as you strive to make the right decisions, navigate changing market conditions and provide a quality service to your clients and customers.

The broader economic environment of course dictates the parameters of these choices. And in the past year, for many businesses, this has changed.

The Irish economy is on a solid growth trajectory once again, but we face new uncertainties ahead as a result of Brexit and a new US administration.

Despite this, I firmly believe that Ireland is in a position to face these challenges head on, from a position of strength and momentum.

Today I want to address three key specific issues that are central to the current work of Ibec.

- Firstly, how do we ensure the Irish business model is properly understood at home and crucially abroad, at a time when many are keen to take unwarranted pot shots at our success?

- Secondly, how can take full advantage of the major opportunities that our strong economic performance presents through investment in much needed infrastructure?

- And thirdly, how can we ensure that a business, national and EU level, we are best positioned to confront and navigate the very significant challenges that Brexit presents, and make the most of the opportunities that do arise?

**Issue 1: When we look at the success of Ireland's business model, it's easy to forget how far we've come.**

Ireland set out its stall over sixty years ago with a blueprint, devised by the visionary public servant and economist TK Whittaker, to move Ireland away from protectionist, self-sufficiency ideals, toward an open island economy.

A number of subsequent factors catapulted Ireland from a small peripheral nation with low economic activity, to a highly competitive country, with living standards among highest in the world.

Key milestones included the establishment of the Industrial Development Agency in 1949, the Anglo-Irish Free Trade Agreement in 1965, and Ireland joining the then European Economic Community in 1973.

Right up to our role today in promoting the Base Erosion Profit Sharing (BEPS) process with the OECD, something I will return to later, and the completion of the European Single Market, Ireland has fully embraced the globalisation of business and economics.

Yes, a core policy plank underpinning this rise in our global business model is our low corporate tax rate. But this is just one part of a multi-faceted business offerings, which also includes our young, highly educated workforce and our rich ecosystem of collaborative research.

All this together means Ireland is one of the most globalised, trade dependent and competitive countries in the world.

The recent global financial crisis hit Ireland hard, but the perception that the Irish had, like Icarus, flown too high has been challenged by the strength of our subsequent recovery.

The level of output is now above what is was during the Celtic Tiger era with all sectors of the economy returning to growth last year, driven by increased productivity and supported by capital investment.

Debt ratios are also plummeting and a huge balance of payments surplus is indicative of a vibrant business model.  Crucially, unemployment continues to fall and is due to dip to 6.5% this year, with all sectors of the economy benefitting.

We can also expect to see growth of about 3% in GDP terms in the year ahead, which will be underpinned by consumer spending and investment.

So, what is going on in Ireland?

Surely given Brexit and new competition from the US to bring manufacturing jobs home, the uncertainties for the Irish business model are greater than ever? Any reversal in global trade and the withdrawal of its largest co-joined trade partner from the EU must be bad for Ireland.

Whilst these are very substantial threats, which I will return to; Ireland's commitment to remain fully within a post-Brexit EU will provide some countervailing opportunities.

These remain in the category of 'known unknowns', however, there is one crucial 'known known' for Ireland and that is the OECD corporate taxation process.

The OECD process has established that tax policy must be matched by substance. Ireland with its established, decades-long, track record for corporate investment and its common law legal structures is perfectly positioned to benefit from the global restructuring of firms seeking locations of excellence and substance.

Ireland has indeed experienced a cascade of such corporate substance in the last three years with the consequent flow of output pushing its GDP levels to heights that have attracted much scepticism both internationally and domestically.

But the truth is, for a small open economy, Ireland is the best example of EU success across a range of sectors. It is important that we appreciate this success at home, and make sure it is understood in Europe and further afield.

Next week, in the run up to St Patricks Day, Ibec will be hosting a major event in New York with the Ireland-US Council, which will be addressed by a range of major Irish and US business figures. We will also be meeting key policy makers and opinion formers in Washington.

We will be communicating the depth, substance and resilience of the Irish business model.

To give a snapshot; Ireland is home to all of the top ten global technology companies, 18 of the world's top 20 pharmaceutical companies and our food and drink sector is the largest net exporter of dairy ingredients, beef, and lamb in Europe.

Many reasons can be attributed to this continued success of Ireland's business model, but substance is typically overlooked.

Yet substance is precisely what it has built up over the last quarter century. Outward direct investment matches foreign direct investment; Irish household net wealth is only exceeded by Luxembourg in the EU, and the population has increased by 30% in a generation.

In a world where substance matters, Ireland is well positioned.

We have the substance and we have the tax strategy to match, and this reality needs to inform our economic choices.

But this isn’t happening.

**Issue 2: And that brings me to my second theme around investment.**

I have been an economist for the best part of 25 years; and I have never been more confident about the Irish economy.

In fact, I cannot believe the narrative that exists about the Irish economy domestically. It‘s not just a marginal misread of what's going on, in most cases it’s way off the mark.

At a time of great opportunity, we still have not shaken off the austerity mind set. This, despite the fact that across so many headings, whether it be growth rates, tax revenue, debt ratios or employment, we are in a place unimaginable only a few years ago.

Our policy makers must of course deliver sensible management of the public finances and none of us want to experience again in our lifetimes the severity of the fiscal and economic crisis we have just emerged from. However, neither must we become engulfed by the fear of the last crisis repeating itself. The best way to ensure prosperity in the years ahead and to grow a robust economy is to invest ambitiously. Ibec is disappointed that Government is not embracing this ambition.

In fact there are two recent examples of excessively cautious economic policies from Government. It plans to put €1 billion annually into a rainy day fund from 2019 and in the most recent Budget it also announced that it plans to take the debt to GDP ratio all the way down to an arbitrary target of 45% - well below the EU requirement of 60%.

These are not costless policies and don’t make sense at a time of the cheapest money in history. They will deprive the economy and households of much needed investment and will be detrimental to quality of life.

We need to reopen the debate, and with the political system in a period of flux, now is the time to do it.

We are in danger of missing a unique opportunity to put in place the public infrastructure we so desperately need to deliver the next phase of economic and social development. Yes, we need to be prudent with current expenditure, but unless we invest for the long-term we will store up major problems for the future.

A poor transport network, a jaded health infrastructure, an under supply of quality housing and an education system at capacity will not only hold the country back economically, it will cause social problems that could easily spill over into our politics.

The, often inaccurate, political narrative that has festered in other countries around the pressure that immigration puts on public services is a cautionary tale.

If we don’t act to ensure capacity constraints on services are proactively addressed through investment, we risk a similar dynamic emerging here.

Ibec has been beating this drum harder and louder over recent years, and some are beginning to grasp the urgency of the problem. But a political process too often convulsed by short-termism, and with an eye to the next election, has failed fundamentally to react.

The approach of Europe has also lacked foresight and imagination.

To address the current and future economic and social needs of the country, we need to dramatically ramp up investment spending.

Here’s why.

1. Shockingly, Ireland remains at the very bottom of the EU league table for infrastructure spending. Yes, the current capital plan has made strides, but we are still in the lowest level of capital investment since the 1970s.

2. Ireland ranks only 27th out of 144 countries in terms of the quality of infrastructure. Our cities are in a global race for investment, but we lag behind competitors when it comes to infrastructure, sustainability and the cost of doing business. Dublin ranks 15th, Cork 33rd and Limerick 89th globally in terms of congestion.

3. We have the fastest growing population in the EU; over the next 25 years, Ireland’s population is expected to grow by 30% and coupled with this, we are also home to the EU’s youngest population.

4. Borrowing costs are currently at all-time lows – it has never been cheaper to borrow money or gain access to cheap money

So that’s the case for investment, the next question is how?

Yes, Government will remain the primary funder of infrastructure projects, but there is a growing role for the private sector.

There has been far too little new thinking to date, and far too much resistance to new ways to doing things. If established funding models are delivering then we need to think again.

The Government must embrace creative and innovative funding sources of finance, infrastructure delivery and planning.

One potential route is to adopt a funding ‘mix’ such as; direct capital investment by the State; public private partnership arrangements; EU support, with the new European Investment Bank office in Dublin an opportunity; and the Ireland Strategic Investment Fund; potential arising from the sale of State assets.

In order to take advantage of the window of opportunity of low private sector borrowing costs, it is vital that Government increases its ambition around PPPs and reviews the current arbitrary cap on their use.

The EU fiscal rules remain a hurdle. They make eminent sense when it comes to day to day spending, but not when applied to vital, long-term, productive investment.

Since 2015, Ibec has been leading the call for government to seek flexibility on EU fiscal rules and, thankfully, there's now consensus building that changes are required.

The Commission's 'Juncker Plan', to provide new EU funding, is another step in the right direction.

Of course, ensuring that capital investment is spent wisely is another priority. There is no point having the resources if we invest in the wrong projects at the wrong time, in the wrong places.

The current government consultation on the National Planning Framework is critical and is an opportunity to show real ambition around long term planning.

Ibec has a project team working on a region by region response and we look forward to providing a detailed, and constructive contribution.

Political momentum will of course be required to move this agenda on and business is concerned that the current political climate lends itself to kicking the tough decisions down the road.

Political forces need to galvanise behind the investment agenda and we need to ensure that government shows real ambition.

**Issue 3: Moving on to the third issue I want to address today, and the issue that is most pervasive in terms media coverage, Brexit.**

Since the UK vote to leave, developments have been rapid and dramatic.

The outcome has reshaped British politics, significantly increased economic uncertainty and will dominate much of the domestic and European agenda for years to come. At a time when Europe should be looking to the future, the EU has again been cast back into a period of crisis management.

For Ireland, the relationship with our closest neighbour, ally and of course competitor is set to change fundamentally.

The task is to ensure Irish interests are protected and advanced as we move towards formal exit negotiations.

This demands a sophisticated national response. And for Ibec, it's a key priority.

Prime Minister May in her Lancaster House speech clarified the context:

- The UK has adopted an increasingly definitive and combative position, which demonstrates little regard for our trading relationship and for relations with other EU member states.
- A UK departure from the current EU customs union, as mooted by the Prime Minister, is a particular concern. Such a move could seriously disrupt trade between Northern Ireland and the Republic, and our east-west sea and air trade routes with Britain.
- At the same time, the suggestion by the UK government that it may reduce business tax and cut regulation highlights the competitive threat the UK presents.

A comprehensive free trade agreement with minimal trade barriers is desirable, but fair competition must underpin any new EU-UK relationship. This will require clear ground rules, along with effective arbitration and governance structures to ensure legal certainty and recourse when disputes arise.

The Ibec approach to Brexit is threefold:

1. **Firstly, we need to respond swiftly in areas within our control.**

UK suggestions that it may slash corporation tax to shore up their attractiveness as an investment location is an early, but unsurprising indication of the new post-Brexit political and economic reality.

Over recent years, Ibec has repeatedly highlighted the competitive threat from the UK's increasingly pro-business tax regime, others need to take note.

Far too often the domestic policy debate seems to exist in a vacuum: uninformed by trends and developments elsewhere. This undermines the capacity of government to respond to external events and leaves us vulnerable. This cannot characterise our reaction to Brexit.

For exporters, the speed of sterling's decline is already on a par with the 1992 currency crisis. Companies selling into the UK are already 15% less competitive and things could get worse.

While businesses are realigning their cost base and moving quickly to respond to the new reality, the problem also demands urgent and concerted government attention.

Every government decision needs to be 'Brexit-proofed'. We need to aggressively confront the UK competitiveness challenge and, at the same time, position Ireland to take full advantage of the inward investment opportunities that will arise.

- A major overhaul of our business tax offering is required to bring the Irish offering into line with the UK. This should include a radical reform of our entrepreneurs' capital gains tax regime, along with improvements to our incentives for investment, innovation and up-skilling in SMEs.

- An intense focus on cost competitiveness is needed. We need to keep labour costs in line with competitor economics, and avoid any decisions that would push up energy or insurance costs.

- And, as already mentioned, we need to ramp up public investment far beyond current plans; and put in place the quality transport network, housing, public services needed to compete internationally and thrive in a post-Brexit world.

**2. Looking beyond domestic policy, we need to ensure Irish interests are protected in the complex exit negotiations and in the new trading relationship the UK will have to forge with Europe post-Brexit.**

The task is enormous and Ireland has much more to lose than others.

A fine balance needs to be struck between generous market access, while at the same time not facilitating the cherry picking of EU benefits without the accompanying obligations and responsibilities that come with membership.

We need to actively support the closest possible EU-UK relationship, while at the same time ensuring the UK does not steal a competitive march.

The political settlement in the North needs to be afforded a special status, along with a continued commitment to the development of the all-island economy. And the free travel area between the UK and Ireland must be preserved.

Recent months have again highlighted the potential for political instability in Northern Ireland, and this is before the full effect of Brexit materialises.

Putting politics to one side, it is crucial that the future development of the all-island economy and the need for an all-island approach to planning and infrastructure investment is not lost as the UK moves to sever ties with Europe.

This will be an Ibec priority, and we are working closely with the Confederation of British Industry in Northern Ireland to make it happen.

Ultimately, Ireland's unique economic concerns need to be heard and understood and our interests safeguarded in any final agreement.

Ibec, as the principal voice of Irish business, is working intensely at a domestic, UK and EU level to ensure the interests of Irish business are forcefully represented and advanced as we move towards formal exit negotiations.

In the coming weeks Ibec will set out in detail our negotiating priorities and key recommendations to ensure that the concerns of Irish business are taken on board.

We will be bringing this message to London, Brussels and to the capitals of Europe over the coming months.

We are looking to government for a similar resolve.

**3. In addition to our policy activity domestically and at UK and EU level, Ibec is also working to support individual businesses as you navigate the challenges of Brexit.**

The future model for the UK's relationship with the EU and the timeline for execution are unclear.

However, the potential implications of Brexit for Irish business are so profound that companies cannot afford to take a wait and see approach.

It will affect different companies in very different ways, but businesses need to be proactive and ensure that they are not left behind when the uncertainty clears.

Irish businesses not only have to deal with the impact of weak sterling on trade flows, but also the future complexity of operating under dual regulatory frameworks, new overheads associated with trading with a non-EU country; additional supply chain complexity; and new competitive and market access pressures.

However, despite the significant risks to Irish trade, many businesses are not preparing for Brexit.

A recent Ibec survey shows that 54% of businesses have not taken any action to understand the implications for their business and how they might respond.

Later this month, Ibec and our project partners Accenture will publish a new guide for companies.

It will identify the potential implications of Brexit for Irish business, and proposes pragmatic steps that businesses can take to assess the risks and prepare their responses.

It will form a central part of our Brexit service offering to members, as we work to support your business, represent your interests and advocate on your behalf.

## Conclusion

Notwithstanding these issues, our economic performance remains stellar and is something should take pride in, while still not forgetting the many mistakes made along the way.

The risk now is we rest on our laurels and take recovery and success for granted.

When it comes to planning and investment, we need to think long term and plan accordingly; even if this involves difficult and potentially unpopular political choices.

Something made more difficult by the current Dáil arithmetic. Last year only 22 new Acts we enacted in Ireland, the lowest figure since 1944.

Of course new legislation is not always the answer. We need to avoid decisions that would undermine our ability to react to and adapt to external events.

Despite the positive outlook and upbeat assessment I have given you today, business is concerned at the number of legislative proposals on labour market issues, coming from both the government and opposition benches, that if enacted will have a very damaging impact on the ability of Irish business to create jobs and compete successfully.

Too often, short-term political gain and public grandstanding appears to override robust regulatory impact assessment and sound policy making.

With this in mind, Ibec has embarked on a series of high level meetings with the main political parties, along with direct engagement with government and opposition TDs, setting out businesses' ambition for the future, but also our concerns.

We are working tirelessly to represent your interests at home and abroad with both vigour and determination.

This will continue over the coming weeks, months and years.

Over the coming months and as we look further out towards 2050, we have an opportunity to lay the foundations for a new phase of our country’s social and economic development.

A phase that should be characterised by world-class infrastructure, productive investment, an education system fit for the twenty first century, and a tax code that supports growth and rewards work.

We need to be smart, nimble and ambitious. And we need a relentless focus on competitiveness.

Designing this new Ireland, an Ireland that works for business and citizens alike, is no easy task, but it’s a job we all have a massive stake in.

And Ibec, on behalf of Irish business, and working with government, is ready to play a central part.

Thank you and enjoy the rest of the day.