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Business This Week

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Spectre of O'Brien looms over INM row
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Snowflakes see red so easily on social media
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Irish analysts downplay euro-sterling parity as pound nears eight-year low

Latest sterling descent prompts further parity forecasts as market remains volatile

UK registers slowest growth for any major advanced economy since the start of 2017

EOIN BURKE-KENNEDY

Irish currency analysts have poured cold water on predictions that the euro is headed for parity with sterling despite another marked descent in the value of the pound in recent days.

While the euro snapped a four-day rise against sterling yesterday, it was still hovering close to 92p, its highest level since October 2009 and more than 20 per cent above its pre-Brexit value.

The latest swing against sterling has prompted a flurry of predictions, led by HSBC and Morgan Stanley, that the UK currency may now be trending towards parity with the euro, long viewed as the doomsday scenario for Irish exporters, who are reliant on sterling's superior purchasing power.

Davy economist Conall Mac Coille noted, however, that the same financial houses were predicting the euro would hit parity against the dollar when the US Federal Reserve starting raising interest rates last year, a prediction that was turned on its head.

"There's going to have to be more negative news to push it [sterling] to parity," he said, noting that there was now a contrary view in the market that sterling was undervalued from a fundamentals point of view.

"If you believe Brexit is going to be a structural shock that hurts the UK, the exchange rate will be persistently lower because the growth prospects are weaker, but I don't think parity is going to be that new normal," Mr Mac Coille said.

"It's probably more likely that this Brexit thing is just going to be a drip, drip of disruptive political noise for the next 12 months," he said.

Investec's head of foreign exchange Mark O'Brien said his firm was not predicting parity but expecting the euro to drop back to 88p next year.

"We're still in summer markets and there's less liquidity in summer markets and when you have a move going, it can be a little bit more exaggerated," he said.

0.3%
Growth rate in the UK's economy during the second quarter of 2017

Despite the diverging economic outlook for the euro zone and the UK and the Brexit uncertainty, Mr O'Brien said the markets had factored much of this in already. Investec's medium-term view was that the currency would recover from this level against the euro.

Goodbody analyst Dermot O'Leary took a more bearish view on sterling's prospects, forecasting it was likely to fall further against the euro to 93p by the end of the year and 95p by the second quarter of 2018, but he ruled out parity.

"It's more likely to weaken from here but getting to a parity level is unlikely in our view," he said.

Mr O'Leary said the Brexit negotiations were more and more pointing to a transitionary period rather than a hard break, which "you could put in a soft Brexit category", an event which would ultimately be more supportive of sterling.

Goodbody's forecast that sterling was likely to weaken further in the coming months is based on the weakening macroeconomic outlook in the UK, he said, where the consensus growth forecast for 2017 is now 1.5 per cent, down from 1.8 per cent previously.

Morgan Stanley strategists, who have fronting the parity predictions, said yesterday the British economy may lose growth momentum as the government's failure to define its Brexit target creates investment uncertainty.

The Office for National Statistics confirmed yesterday the UK economy grew 0.3 per cent in the second quarter after 0.2 per cent in the first – adding up to the slowest growth for any major advanced economy since the start of 2017.

Sterling weakness creates boom time for North's hotels: Page 2

Court to rule in Samsung bribery trial

A South Korean court will rule today on corruption charges against Jay Y Lee, the billionaire head of Samsung Group, after a six-month trial in a nationwide bribery scandal that triggered the dismissal from office of the country's president.

Mr Lee (49), the heir to one of the world's biggest corporate empires, has been held since February on charges that he bribed then president Park Geun-hye to help secure control of a conglomerate that owns Samsung Electronics, the world's leading smartphone and chip maker, and has interests ranging from drugs and home appliances to insurance and hotels.

Prosecutors have demanded a 12-year jail sentence for Mr Lee, who also faces charges of embezzlement and perjury – potentially the longest prison term given to a South Korean business leader.

The third-generation de facto head of the powerful Samsung Group, Mr Lee has effectively directed operations since his father, Lee Kun-hee, was incapacitated by a 2014 heart attack.

Some investors worry that a conviction and long jail term could leave a leadership vacuum, with no one to take the big decisions at Samsung, which has more than five dozen affiliate companies and assets of 363.2 trillion won ($322.13 billion).

Its listed companies make up about 30 per cent of the market value of South Korea's KOSPI stock index.

Appeal

Whatever today's verdict, lawyers expect an appeal that could go all the way to the supreme court, with a final ruling probably next year. Prosecutors have said Samsung's contributions to two funds backed by Park aimed to secure government support for a merger of two of its affiliates to tighten Lee's grip on the conglomerate. Mr Lee has denied wrongdoing, and his lawyers say the 2015 merger was done for business merits.

Samsung, founded in 1938 by Lee's grandfather, is well-known around the world and a symbol of the country's dramatic rise from poverty following the 1950-53 Korean War. But over the years, it has also come to epitomise the cosy ties between politicians and powerful family-controlled business groups – or chaebols – which have been implicated in a series of corruption scandals.

– Reuters

G Hotel and Eye Cinema in examinership

Developer Gerry Barrett appeals to the High Court to appoint an examiner

COLIN GLEESON

The landmark G Hotel and adjoining Eye Cinema in Co Galway have been placed in examinership days after a receiver was appointed to the properties owned by high-profile developer Gerry Barrett.

In an affidavit filed to the High Court on Thursday, Mr Barrett applied for the appointment of an examiner after receiver KPMG had been dispatched to the five-star hotel on the edge of Lough Atalia days earlier.

Mr Barrett said he received a telephone call at 1.50pm on August 18th from Maura O'Donnell, the general manager of the hotel. He received a further telephone call from Ciara Newcombe, the accounts manager of Style City, which operates Eye Cinema.

"Both parties informed me that representatives of KPMG had arrived at the premises of Eye Cinema and the hotel," said Mr Barrett. "Ms O'Donnell informed me that Choice Hotels had arrived on site at the hotel and informed her they were there to run the operation of the hotel.

"I immediately left my office in Edward Square, Galway city, to go to the hotel. When I arrived at the hotel, three meeting rooms were being occupied by the receiver and his appointed operators for the hotel and Eye Cinema."

Wedding under way

Mr Barrett told the court that a wedding was under way at the hotel on the day in question, and that KPMG had five representatives on site in addition to 10 more individuals who were dispatched by Choice Hotels.

"Strong concerns were expressed across the hotel management team that the receiver wanted to interrupt staff that were looking after a wedding of 163 guests," he said. "I asked if KPMG would hold off until later in the day when the wedding guests were settled. However, this request was not entertained."

Mr Barrett went on to say that a wedding fair had been due to take place at the hotel the following day, and that appeals to the receiver in relation to the adverse effect that negative publicity would have on wedding bookings were ignored.

"KPMG requested a creditors' listing from the hotel accountant and proceeded to contact creditors to notify them of the appointment of the receiver to the hotel," he said. "KPMG informed the creditors that they could not guarantee all invoices would be paid in full.

■ The colourful G Hotel is a five-minute drive from Eyre Square in Galway city

"I say that this is of great concern, in particular as this as it is the busiest time of the year for the hotel, and the hotel does not want to be in a position where suppliers are refusing supply."

Mr Barrett said he also made the case that the developments would have a "detrimental effect" on the supply of goods to the hotel by Hotel Maker, a sister property of the hotel.

"Another concerning development is that Choice Hotels wants to immediately start contacting clients who have booked weddings with the hotel to inform them of the appointment of the receiver," he said.

UK wants EU to accept its data regime after Brexit

ELAINE EDWARDS

Britain wants to co-operate with the European Union in relation to data protection and to have its legal regime accepted after it leaves, it said yesterday.

It proposed using an "adequacy" agreement – whereby the European Commission recognises the levels of protection provided by non-EU countries – to ensure the flow of information vital to businesses and law enforcement was not interrupted.

In the latest in a series of papers outlining its aims in Brexit negotiations, the government said Britain had been a major player in the negotiation of the EU General Data Protection Regulation (GDPR) which comes into force next May.

"The UK has played an important role in developing the EU's approach to data protection, including by playing a full part in the negotiation of the GDPR," the government said in its paper.

"In light of the UK's unprecedented position, the future deep and special partnership between the UK and the EU could productively build on the existing adequacy model."

The status has been granted to 12 countries, including New Zealand, Switzerland, Canada, Andorra and Israel.

The Privacy Shield framework agreed between the European Commission and the US in July last year provides a mechanism for companies on both sides of the Atlantic to comply with data protection requirements when transferring personal data from the EU to the US.

> We want the secure flow of data to be unhindered

The British government said that if it cannot agree an adequacy deal, it could fall back on so-called binding corporate rules or standard contractual clauses. "We want the secure flow of data to be unhindered in the future as we leave the EU," minister for digital Matt Hancock said.

He said the goal was to combine strong privacy rules with a relationship that allowed flexibility, to give consumers and businesses certainty in their use of data. Noting that the digital economy in Britain was worth £118.4 billion in 2015, he said any disruption in the free flow of data could be costly both to Britain and to the remaining members of the union.

Data Protection Commissioner Helen Dixon asked the High Court in Ireland earlier this year to refer to the Court of Justice of the European Union (CJEU) the question of whether the standard contractual clauses used by companies to transfer personal data are valid.

Ms Justice Caroline Costello's judgment is expected before the end of the year.

– (Additional reporting: Reuters)

Economics

Eoin Burke-Kennedy

Government relies on private sector to solve housing crisis

There's a notion that should be instantly dispatched to the annals of wishful thinking: that the Government will, one of these days, do something significant to address the housing crisis.

It assumes that the colossal spike and collapse in property prices that drove the State to the point of bankruptcy in 2008/2009 and the now seemingly endless headlines about soaring prices and "generation rent" has prompted a rethink about how we deliver housing in this country. It hasn't.

The Government remains ideologically wedded to the idea that the market is the most efficient model for dealing with the State's housing needs, and by extension opposed to the type of large-scale social housing projects we've had in the past. The crash has only served to harden its stance.

Record low

Since coming to power in 2011, it has presided over the lowest social housing build in the State's history, building just 1,300 units in its first five years in office, culminating in a record low of 75 in 2015.

These build rates would have been unthinkable even to the penurious Irish administrations of the 1950s. In 1975, for instance, local authorities built 8,794 social housing units, while the private sector built 18,098 homes.

Even the social housing element of the Government's flagship Rebuilding Ireland strategy, which promises 47,000 units by 2021, is entirely predicated on the private sector.

The bulk of the units (32,000) will come from what the Department of Housing dubiously calls "social housing solutions", which is a euphemism for private sector rentals. A further 4,700 units will be delivered via the Part V planning regulations, which require developers to allocate 10 per cent of their estates for use as social housing.

Since the crash the Government has had two overriding objectives; the rehabilitation of the banks, necessary to restore the sovereign's credit rating and allow the Government borrow on international markets; and the successful execution of its Nama plan to deal with bad loans removed from the banks' balance sheets.

Both these aims have required the reinflating of property prices.

A major State intervention in the housing market to address the supply deficit and the affordability gap might have worked against this, just like more pointed action on variable mortgage rates, while politically popular, would have delayed the banks' return to profitability.

Big beneficiaries

The big beneficiaries of the Government's policy have been the banks, developers and, increasingly, international capital and vulture fund investors who have bought up significant chunks of the Irish real estate market since the crash.

Having been established in 2014, Ires Reit (Irish Residential Properties Real Estate Investment Trust) has already amassed a portfolio of nearly 2,400 apartments. Last year it told shareholders that a "deep imbalance between demand and supply in Dublin's housing market" meant the firm's profit outlook was "very positive".

Similarly, US real-estate firm Kennedy Wilson, which controls €1 billion of property assets here, recently described Dublin as "the most attractive property market in Europe".

Blaming investors for crowding out conventional buyers is, however, too simplistic. With the Government essentially vacating any meaningful role in the supply of affordable housing, investors are the only ones who will deliver rental accommodation for a growing proportion of people who can't afford to buy.

The idea that the Central Bank's mortgage restrictions could restrain house-price inflation over the longer term is now also in question.

While the rules initially prevented some people from buying, causing a temporary slowdown in the market, these buyers were simply pushed into renting, which has driven up rents. This has enticed more rent-seeking investors into the market, a process that has triggered a further surge in house-price inflation, completing a not so virtuous circle at the heart of the Irish property market.

Since the 1980s successive Irish governments have moved away from funding social housing projects, deeming the private market a more efficient model for the delivery of housing.

The aversion to State intervention can be traced back to the 1980s when there was a consensus about the need for budgetary tightening, embodied in the so called "Tallaght Strategy", which slashed local authority budgets for social housing.

The ideology was also part of a wider international shift away from state intervention toward privatisation and deregulation.

In the property sector this process ran in tandem with what sociologists refer to as the hyper-commoditisation of property, which transformed housing from an infrastructure into a financial asset, a process that eventually led to the securitisation of sub-prime mortgages, a trigger for the financial crash.

It's naïve to think of rolling back this tide given how enmeshed the global financial system is in real estate.

> Despite the availability of brown-field sites and the possibility of borrowing at historic low rates, the Government appears resistant to funding a major State intervention

Despite the availability of brown-field sites and the possibility of borrowing at historic low rates, the Government appears resistant to funding a major State intervention. Every now and then it gives succour to the rumour that it is lobbying hard in Brussels for a derogation from the EU's fiscal rules to facilitate a major infrastructural spend, but this has been going on for years and nothing ever comes of it.

Either way, the notion that a certain proportion of people won't be adequately housed by the market is now an accepted fact of life, in Anglo-Saxon countries at least, a deficiency that the Government here will endeavour to ameliorate through rent subsidies.

Growth looks strong but is Ireland's booming economy just an illusion?

Eoin Burke Kennedy

Economic growth here is the strongest in Europe but the jobs being created are low-wage and corporate tax changes could be costly

A slew of data about the Irish economy published in the past two weeks all points to a remarkable turnaround in the State's economic fortunes.

Headline growth, at 7.8 per cent, is comfortably the highest in Europe . Employment is growing at a faster-than-expected 3 per cent and is now close to its pre-crash peak. Retail sales, perhaps the strongest indicator of consumer confidence, are growing by 6 per cent despite fears that a weaker sterling may send shoppers across the Border.

However, nagging questions about the relevance of our growth metrics and in particular the contribution of multinationals remain while, on the horizon, Brexit and changes to the global tax environment loom large. One or both could derail the current upswing.

On the multinational question, it may be that Ireland is suffering from a bout of cognitive dissonance. Internationally, we defend their importance to the Irish economy, insisting they provide real "substance" and jobs: at home, we're busy trying to remove them from our national accounts.

By dreaming up new measures to factor out their transactions, the Central Statistics Office (CSO) seems to be exercising some sort of national guilt about the preponderance of multinationals here and their aggressive tax stratagems.

But measures such as modified domestic demand and modified gross national income (GNI*) – the CSO's attempts to de-globalise the Irish economy – are unlikely to be anything more than statistical curiosities.

Gross domestic product (GDP) remains the official yardstick and its troubling gyrations are unlikely to go away.

Since 2013, GDP here has grown by 50 per cent, placing Ireland ahead of China in global growth terms. As a result, the value of the Irish economy is now close to €300 billion, 56 per cent higher than it was at the peak of the Celtic Tiger in 2007.

Sluggish wage growth

Needless to say, Irish people are not 50 per cent better off as a result, far from it. Outside of the IT and finance sectors, wage growth has been sluggish, household debt remains elevated, and big-ticket items such as housing continue to erode purchasing power.

Telling people they're in the midst of a remarkable economic turnaround when they're not feeling it in their pockets is a dangerous thing, as the Government found to its cost at the last election.

Despite its prevalence, GDP, a metric invented in the 1930s-1940s when the world economy was dominated by manufacturing, has long been a poor indicator of economic wellbeing. It is now also clearly failing to adequately account for the increasingly intangible nature of the global economy.

The most valuable companies in the world – Apple, Google and Facebook – are nearly entirely defined in value terms by their intangible assets, in other words the patents and trademarks that go with their products.

Apple's decision to move a significant chunk of its intellectual property (IP) here in the wake of a global clampdown on tax avoidance caused a near tidal wave in the national accounts. But it was Ireland, not Apple, that got the blame as the tag "leprechaun economics" indicates even though the CSO was only following obligatory accounting standards.

"We can't go on having asterisks beside everything," economist Dan McLaughlin says. "We either say that we've been phenomenally successful at attracting multinationals and that they produce a lot stuff which, under the new accounting standards, is included in our GDP.

"But we can't have it both ways. We can't defend the idea that multinationals are real and then simultaneously start stripping them out of GDP," he says.

One of the headline indicators that isn't distorted by globalisation is employment, McLaughlin says. "If you just concentrated on the labour market, it's very clear there's been a massive recovery in the economy. You might even say it's booming again."

Last year, employment here rose by sharper-than-expected 3 per cent, bringing 66,800 people back into the labour market.

Since the nadir of the crash, the unemployment rate has fallen 10 percentage points from a peak of 16 per cent in December 2011 to 6.1 per cent last month. We're now on course to hit "full employment" – equivalent to an unemployment rate of 4-5 per cent – early next year.

"I doubt anyone anticipated that," McLaughlin says.

Former Central Bank governor Patrick Honohan always maintained that employment was the best lens through which to view Ireland's recovery.

Even with this considerable turnaround, total employment is still marginally below pre-crash levels. That contrasts with runaway GDP and reveals that, in employment terms, the effects of the crash are still not entirely a matter of history.

One of the main accusations levelled at the Government and the CSO recently by the Economic and Social Research Institute (ESRI) was that it was next to impossible to estimate sustainable growth for budgetary purposes with the current set of indicators. However, for McLaughlin, consumer spending would be the figure to look at when framing a budget. It rose by a modest 1.8 per cent last year, a figure that's out of kilter with the numbers for retail sales and employment.

McLaughlin believes that, as currently collated, the measure of consumer spending may be failing to capture the full extent of online spending. Regardless, his point is that the traditional national accounting measures are still the best aggregates for assessing the Irish economy, even if headline GDP is polluted by R&D imports and aircraft leasing.

In any case, the economy's bounce back to vigour brings with it a new and different set of challenges. Capacity constraints and the risk of overheating are now increasingly the focus.

While most point to bottlenecks in housing and transport, the capacity constraints can be seen in a myriad of areas. It can take up to 28 weeks to get a driving test, for instance, and there's currently a backlog of some 45,000 applications.

7.8%
Growth in the Irish economy, the highest in Europe; retail sales here are growing by 6 per cent

€300bn
Approximate value of the economy; GDP here has grown by 50 per cent, placing Ireland ahead of China in global growth terms

56%
Proportional increase in the value of the economy compared to the Celtic Tiger peak in 2007

66,800
Number of people who found work last year; a rise of 3 per cent

4.5%
ESRI's unemployment rate forecast for 2019 which would be close to the record

€62
Amount commercial rents on Baggot Street, Dublin 2, cost per square foot; three years ago the figure was €25 per square foot

10
The number of companies that together account for 40 per cent of Ireland's €50.7 billion tax take

For the ESRI's Conor O'Toole, however, the three big roadblocks ahead of us are the labour market with the economy converging on full employment; housing; and investment by domestic firms.

"The growth in employment is happening cross-sectorally and across occupations. There are few areas left where we can see spare capacity to be mopped up if there's further growth," he says.

"To alleviate this, we will be reliant on inward flows of migration, which may or may not be available." Stronger growth outside of Ireland may hinder the inward flow of labour here, he notes.

Despite the acceleration in employment, pay growth has been unusually limp, albeit this has been a feature of the global economy since 2008.

Normally when economies tend towards full employment, wages begin to rise as employers chase a shrinking pool of labour. Instead we have a low-wage, jobs-rich recovery. This isn't easily explained. It might be linked to digitisation, the gig economy and/or the general shift away from industrial-based activities to service ones, which typically command lower wages.

O'Toole speculates that it may be just taking longer than expected for wage pressure to build in the Irish economy and that it will become more pronounced as we get closer to full employment. The ESRI forecasts that unemployment will fall to a near record rate of 4.5 per cent in 2019.

While we're unlikely to see another credit-stoked boom and bust, O'Toole says a serious hike in wages could erode competitiveness and halt the current momentum.

Another area of constraint, O'Toole says, is investment in domestic enterprises. Recent ESRI research suggests SMEs here are underinvesting in their businesses given the potential for growth.

Housing undersupply

However, the logjam that receives most attention here is the housing market. "We continue to have substantial undersupply in residential accommodation in both the rental and owner-occupier sectors."

While the ESRI is forecasting 24,000 new home completions this year, and up to 30,000 in 2019, these levels are still thought to be well below the level of structural demand, which the ESRI estimates to be in the region of 35,000.

This is continuing to put pressure on the domestic economy, bidding up rents and house prices, O'Toole says.

Ibec chief Danny McCoy sounded a warning about diminishing competitiveness this week, noting rents on Baggot Street in Dublin 2 where Ibec has its headquarters have risen from €25 per square foot to €62sq ft inside three years. He argues that the erosion of competitiveness in the economy is now moving faster even than during the heady days of the Celtic Tiger.

But, in an address to business leaders, McCoy said the current disquiet over Ireland's headline growth rates was misplaced.

"GDP is the official, international measure of an economy. If that's driven by intangibles – as it has been as a result of the OECD work – to deny that is to miss the opportunity," he said.

Ireland was effectively a resource economy, he said, but instead of the resource being oil, "we've found something more valuable, which is intellectual capital".

However, he warned the State was consuming "this largesse" without investing in infrastructure and the education system necessary to make it sustainable.

■ The Docklands in Dublin: nearly two-thirds of Ireland's €50.7 billion tax take comes from a small number of firms paying in excess of €10 million. PHOTOGRAPH: DAVID SOANES/GETTY

The catch-22 for the Government is that if it addresses these capacity constraints too swiftly it will overstimulate the economy. Failing to do so may overheat the economy anyway.

Minister for Finance Paschal Donohoe has said he'll shelve tax cuts if he feels the economy is starting to overheat. The next budget, however, is also likely to coincide with an election cycle, an event that can blur the objectives of even the most fiscally prudent minister.

Trying to provide tax cuts, the Government's stated aim, and build capacity while delivering a neutral budget is next to impossible, Trinity economist Frank Barry says.

"Any increase in expenditure into the economy now will be pro-cyclical, which is part of what got us into trouble initially."

Barry also highlights the fragility of the Government's tax base with its increasing reliance on corporation tax revenue, which accounted for 16 per cent of the Government's record €50.7 billion tax take last year.

The problem is that nearly two-thirds of this comes from a small number of firms paying in excess of €10 million, and almost 40 per cent from just 10 companies. While playing down the likely impact of US tax changes here, Barry says the over-reliance on a few big firms leaves Ireland uniquely exposed to changes in the global tax environment.

Digital tax

A more pressing issue on the tax front is the European Commission's plan to introduce a digital tax on internet companies such as Google, Apple and Facebook. While the proposal faces considerable opposition, it's seen as a serious threat to Ireland as it could diminish the appeal of our 12.5 per cent corporation tax rate.

And then there's Brexit. A recent report commissioned by the Government, Nordic think tank Copenhagen Economics examined four possible Brexit scenarios, all which saw Ireland lose out to varying degrees.

The best option for Ireland saw the UK staying in the European Economic Area – akin to the Norway arrangement. That would see GDP fall 2.8 per cent by 2030 when compared with a no-Brexit scenario.

The worst-case scenario is a reversion to World Trade Organisation rules in the absence of a trade deal – the so-called "hard" Brexit. In this case, GDP here could tumble by 7 per cent by 2030.

The economic threat from rising costs for imports of goods – both to the individual household and the wider economy – were highlighted in a separate ESRI report last week and also by the Department of Finance.

The number of caveats associated with Brexit make forecasting a tricky business and the ESRI was keen to point out that its growth forecasts for Ireland for 2019 assumed a Norwegian-style arrangement, which is a big if.

Overall, it might seem like we're back to the early part of the boom where growth is being driven by genuine economic activity and not some credit-fuelled binge on housing.

The risk from capacity constraints and international events such as Brexit, however, cloud the outlook. How we cope with the latter will define the next phase of our economic performance.

> **Wage growth has been sluggish, household debt remains elevated, and big-ticket items such as housing continue to erode purchasing power**

> **A more pressing issue on the tax front is the European Commission's plan to introduce a digital tax on internet companies such as Google, Apple and Facebook**

National Broadband Plan in limbo as Eir pulls the plug

Eoin Burke-Kennedy

With just one bidder, Enet, the rural broadband tender process is hanging by a thread

Eir's departure from the National Broadband Plan (NBP) has left the process hanging by a thread. We now have one bidder in what's supposed to be a competitive tender; the Government effectively backed into a corner over cost; and the 542,000 homes and businesses waiting for broadband in limbo.

The Government insists the plan will proceed and at no extra cost to the taxpayer. The Opposition describes it as a "shambles". And this, a full six years after the plan was first announced by then minister for communications Pat Rabbitte in 2012.

This is seriously bad PR for a State trying to sell itself internationally as a high-tech hub, and deeply damaging for a Government that was knocked back at the last election for being too Dublin-centric.

The Government's National Broadband Plan procurement process may be arid and complex to pick over, but it has significant political and social implications, and goes to the heart of the State's urban-rural divide and Dublin's overwhelmingly dominant position in the economy.

Eir's departure neatly coincides with the arrival of its new owner, French telecoms billionaire Xavier Niel, prompting speculation that he may have directly or indirectly pulled the plug on Eir's bid.

This is something Eir chief executive Richard Moat vehemently denied in an interview on RTÉ Radio, but Niel's focus to date has been on investing in high-density urban centres in France.

It's unlikely that Ireland's complex carpet of one-off housing and dodgy planning held much appeal.

Wholesale division

A spokesman for the company insists, however, the exit was triggered by two things: the onerous requirement for a duplicate wholesale division to deal with the NBP, and the likely lowering of wholesale prices, ie the price Eir charges other operators to buy broadband bundles on its network, on foot of an upcoming ComReg review.

"Together they discourage future investments in the network," he said.

That said, Eir's position and motivation in the process has never been easy to weigh up. As the market incumbent, losing a big broadband contract in its own backyard has presented a serious challenge, not least as it was being readied for sale.

This has led to accusations that it would attempt to bend, fracture or game the process to its own end.

Last year, the company successfully managed to have 300,000 premises deemed commercially viable removed from the original plan, with the acquiescence of the Department of Communications. These were now included in its own commercial rollout, having previously been deemed uneconomic to service by the company.

This strategy allowed Eir effectively to "donut" towns and villages across the National Broadband Plan area with its own technology.

That means the presumed "winner" of the NBP contract – the Enet-led consortium – will now have to traverse Eir's network to get at the homes it is connecting to high-speed broadband, paying Eir access rent in the process. This was the reason why ESB/Vodafone joint venture Siro dropped out last year.

The Government has been pushing Eir to lower its access price, which is regulated by ComReg, but to no avail. Last month, perhaps out of frustration, Minister for Communications Denis Naughten mooted the idea of introducing legislation to force Eir's access price down.

This may have backfired. Several insiders believe the threat, combined with the fact that Eir will receive a handy income from access anyway – a figure of €20 million a year or €500 million over the lifetime of the 25-year contract has been mentioned – and the urban focus of its new owner, may have tipped the balance and caused the company to jump ship.

Hard bargain

Either way, the Government is left in a difficult position of having to drive a hard bargain with little or no fall-back position. Naughten this week denied the Government had backed itself into a cul-de-sac, insisting it could walk away if the price and the plan offered by the sole remaining bidder was not right. He said it would not be low-balled by the circumstances.

"We have a good idea, based on the costings that have come in, what the ballpark figures are in relation to this," he said.

He also insisted that similar processes in other jurisdictions have seen the incumbent drop out but still succeed with only one bidder. Nonetheless, for the first time in this long and tortuous tender process, he raised the prospect of a "plan B". What this entails, nobody outside the department seems to know.

The political repercussions of changing tack at this late stage, however, would be significant, a situation that could not be lost on Enet.

A casual glance at the department's broadband intervention map will give you an idea of the scale of the undertaking. Hard as it is to believe, the State's 90 broadband black spots cover 96 per cent of the Republic's land mass, a product of decades of chaotic planning. The cost – now believed to be significantly more than the €1 billion previously indicated – and the technical difficulty of reaching these homes, especially in remoter parts, is a formidable challenge. Similar processes in the UK and Australia have foundered.

This is a big ask of Enet, which has, up until now, been overshadowed by the activities of its bigger cousins, Eir and Siro.

The company – whose core business centres around the operation of the State's Metropolitan Area Networks (Mans), a series of telecommunications networks built around 94 towns – has a turnover of around €50 million, employs 100 staff and now finds itself in pole position for a €1 billion contract. Its fledgling network that feeds fibre to around 1,000 homes is what chief executive Conal Henry calls a "proof-of-concept network".

To transform this into a major piece of communications infrastructure capable of bringing fibre to 542,000 homes and premises, the company has brought in the "big guns" to strengthen its bid.

Financial clout

The consortium, backed by specialist telecoms investor Granahan McCourt Capital, has been joined by FTSE-listed SSE, which is Ireland's second-largest energy utility, and the John Laing Group, a London-based infrastructure investor and manager, adding financial clout and operational expertise, said Henry.

He also highlighted that Enet has, between its various operations, a fibre network that is second in size only to Eir. According to the last ComReg figures, it accounts for 4,000 of the 19,000 fibre-to-the-premises (FTTP) connections.

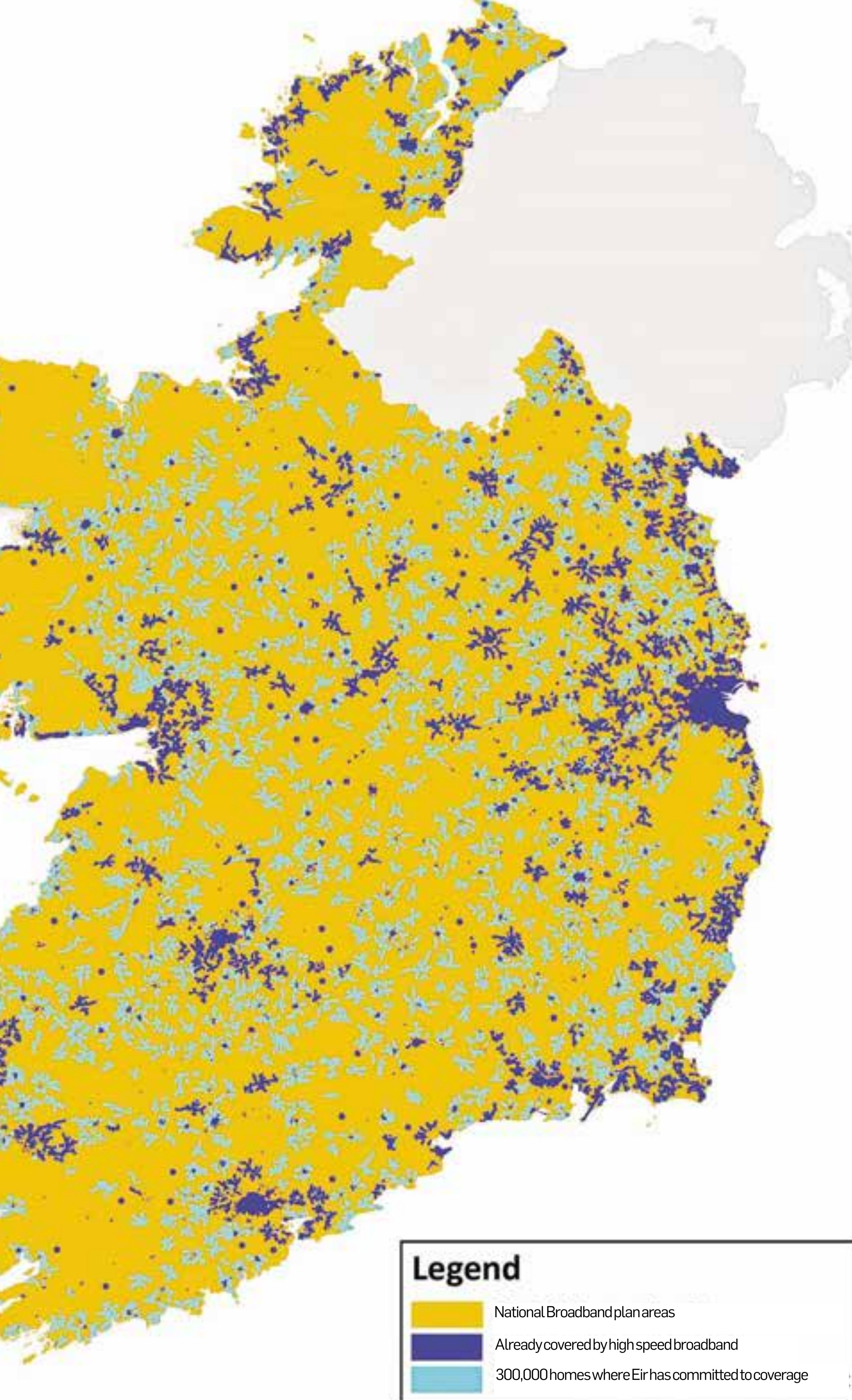
"We remain confident that this is a deliverable project and will get delivered on time and within the cost expectations of stakeholders," said Henry.

"There's a way through this that works for everyone," he added, saying he had had no indications that the Government intended to change the tender in the wake of Eir's departure.

Where the process goes from here is down to Enet and the Government, with the company scheduled to be elevated to preferred bidder status in September before actual construction begins in 2019.

Department officials insist most of the 542,000 homes will be connected in the first two years – in other words, by 2020. For now, those customers can only sit and hope.

A casual glance at the department's broadband intervention map will give you an idea of the scale of the undertaking. Hard as it is to believe, the State's 90 broadband black spots cover 96 per cent of the Republic's land mass, a product of decades of chaotic planning



542,000
The number of homes, farms and businesses hoping for high speed broadband under the National Broadband Plan

990,000
The number of people currently without high speed broadband

47,096
The number of small and medium enterprises - mostly very small businesses - that are not connected ot the high speed network

437
The number of schools relying on slower or non-existent internet connections. That's around 13 per cent of all the schools in the State

20%
Of homes in the State either do not have access to high speed broadband or are not included in the 300,000 homes that Eir has undertaken to connect

61%
The percentage of farms around the State that fall outside existing high speed broadband coverage

The original bidders

Siro
A joint venture between ESB and Vodafone, Siro dropped out of the National Broadband Plan tender process in September 2017 after finding there was no longer a "business case" for its continued participation.

Enet
Enet is the last bidder left in the Government's national broadband plan. The consortium is backed by specialist telecoms investor Granahan McCourt, SSE – Ireland's second-largest energy utility – and the John Laing Group, a London-based infrastructure investor and manager.

Gigabit Fibre
Gigabit Fibre was established in 2015 with the aim of securing business under the Government's National Broadband Plan. It was initially chaired by the former head of O_2 Ireland, Danuta Gray, but she stood down in 2016. Another backer of Gigabit was former Eir executive Ronan Kneafsey. Neither Ms Gray nor Mr Kneafsey are registered as directors of the company any longer, having both resigned in 2016.

Imagine
Imagine was ejected from the tender process as it didn't meet some requirements under the Government's plan. Imagine suggested that it was ejected on a technicality, which related to its backer, Chinese telecoms giant Huawei and the fact that the latter's holding company wasn't included as a member of the Imagine bid, which also included Australia's Macquarie Capital and infrastructural group Black and Veatch.

Eir
Eir, Ireland's largest telco, had been favourite to win the state contract but withdrew on Wednesday because the risks had become "too great for its continued participation". Recently, French telecoms mogul Xavier Niel has acquired a controlling 65.4 per cent stake in the former semi-state through his two companies Iliad and NJJ.

As part of Mr Niel's deal, Singaporean sovereign wealth fund GIC is exiting Eir, while current shareholders Anchorage Capital and Davidson Kempner Capital will remain on board.

When the rural wind blows, the broadband signal goes

Peter Hamilton

Eir's decision to pull out from the tender process for the National Broadband Plan has caused considerable concern

When Gerry Keane stands at his front door in Moyveela, four miles from Athenry, he can see the site Apple has long fought to get planning permission on for its data centre.

The technology that would have been required to service that site, however, hasn't darkened his doorstep. His business, Galway Bay Executive Travel, which offers chauffeur services has long suffered at the hands of inadequate broadband.

"If you were trying to send off an email and an itinerary with photographs attached, you'd have to take off the photographs to send it because it wouldn't have gone otherwise," he said.

The poor broadband forced him to pay a provider for a receiver that would make his service slightly better.

About 500m from Keane's house, three houses have high-speed broadband supplied by Eir. But, he says, they wouldn't extend the line another 150 yards when they were installing it to include a further 17 homes, including his.

While Mr Keane's broadband has improved slightly after he installed the receiver, Paula Carney-Hoffler in Tipperary has had the opposite experience.

"If the wind blows, the signal goes completely," she said. Working from home as a credit risk and compliance manager for a Dublin-based solicitor firm, she says there's a significant discrepancy in the level of broadband services in different pockets of the State.

Often she finds the level of broadband that she pays for doesn't work. That means she has to go to a hotel or use mobile data. But with that comes significant costs. "Once you live outside a city, you're forgotten about. They [the Government] don't realise how many remote workers there are out there."

Remote working

Eir's decision to pull out from the tender process for the National Broadband Plan has caused her considerable concern. "Am I going to have to leave my home where I live? That's what it looks like if this happens."

As for the Government's push to get the idea of remote working or living outside of Dublin to take off, she suggests that reality is getting further away.

John Hurley, the chief executive of Kilkenny Chamber, agrees. Large businesses like VHI and State Street, which are significant employers in Kilkenny, have a good broadband supply but their desire to facilitate employees to work from home may well have been dealt a blow by Eir's move, he suggested.

In the buoyant tourism market of Connemara, Ronnie Counihan of Renvyle House Hotel says poor broadband infrastructure could cost the hotel jobs in an area where they're badly needed.

■ The site of the Apple data centre in Athenry. Gerry Keane can see it from his doorstep, but can't access high speed broadband.

"We used to have a nice steady conference business before the advent of broadband: now we have nil conferences a year," he said. "Being off the beaten track, we're at a huge disadvantage and we are one of the biggest employers in Connemara. We have 70 staff."

Mr Counihan, the hotel's managing director, said they will be putting pressure on politicians to tackle the issue but also noted "there aren't very many votes out here". "It's not good for our business," he concluded.

Fellow hotelier and owner of Killeen House Hotel, Michael Rosney, suggested the days of broadband being a novelty for tourists are long gone. The reality of poor infrastructure, he warned, could threaten Ireland's competitiveness as a tourist destination.

Then there are farmers, for whom a high standard of internet access has become particularly important, considering that returns for the EU basic payment scheme, due in by May, can only be filed online this year.

"Given the critical importance of the basic payment and other schemes to farm incomes, access to broadband is vital for farmers," an Irish Farmers' Association spokeswoman said.

Prof Edmond Harty, the chief executive of farming equipment manufacturer Dairymaster and a former winner of the EY Entrepreneur of the Year award, noted that his business, based in Causeway, Co Kerry, has had to get in its own connection because of the poor local broadband infrastructure.

'Way of life'

"The internet is a way of life for every business. As a result, the national broadband plan is very important," he said.

Prof Harty suggested that younger farmers are learning their business by using YouTube and without proper broadband infrastructure, "the question is where they'll be left", he says.

Seamus Boland, the chief executive of Irish Rural Link, said the confidence of business in rural Ireland is going to get a knock.

"This sends a message to potential start-ups and existing business in rural areas that the development of our business is not going to happen in this location," he said. " 'We're going to have to think urban, we're going to have to think Dublin.' That's what they're going to say."