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PRESS RELEASE

Address by Liam Connellan, Director General, Confederation of Irish Industry, at Bray Chamber of Commerce, Monday, 23rd April 1990 at 1.00p.m.

ECONOMY NOW UNDER PRESSURE FROM FORCES OUTSIDE OUR CONTROL

ESSENTIAL TO CONTINUE CONSENSUS APPROACH OF PROGRAMME FOR NATIONAL RECOVERY TO SUSTAIN EMPLOYMENT

The consensus approach of the Programme for National Recovery has created a climate of confidence and stability in the economy over the last three years and this has resulted in higher investment, improved living standards and more jobs. The impact of the Programme has become more pronounced each year and 1989 was probably the best year for the creation of new jobs in the last decade.

The economy is now being buffeted by severe external pressures over which we have no control. Britain, our largest trading partner, is in near recession and the value of sterling has plummeted making it much more difficult for Irish firms to compete in a depressed market. There is substantial structural change in the computer industry with greater emphasis on smaller hardware systems and on software. Developments in Central and Eastern Europe are increasing the attractions for mobile international investment to locate in these areas so that firms can benefit from the expected rapid expansion of their economies.

Some indications of the combined impact of these changes are now emerging -

- the value of total Irish exports which increased by 19% in 1989 over 1988 <u>increased by only 6% in the last three months compared to the same period a year earlier.</u>

- the value of Irish exports to Britain, which increased by 12% in 1989 over 1988, <u>increased by only 1.5% in the last three months compared to the</u>

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same period a year earlier. Most of this fall-off was due to lower prices arising from the sharp decline in the value of sterling, although a decline in order books indicates that volumes are also falling -

- the value of Irish exports to Continental EC countries, which had increased by 25% in 1989 over 1988, increased by 9% over the last three months compared to the same period a year earlier.

- the level of order books in Irish factories has been falling for the last four months.

The changed external situation can be summarised by stating that the value of exports to the Continent are continuing to grow at a healthy rate while exports to Britain have stopped growing.

But we must cope with these difficulties. Irish industry already exports a higher proportion of its output than any other EC country, with the exception of Belgium and Luxembourg. Fortunately almost half of these exports are sold to Continental Europe compared with less than one-third to Britain. Our policy must now be to offset lost sales on the British market by greater sales on Continental Europe and also by increasing the share of the products in the adjacent Northern Ireland market.

The currencies of two of our main trading partners, Britain and the US, have weakened dramatically in recent months. The Irish pound is now 8% stronger than a year ago on a trade-weighted basis. This has resulted in a sharp fall in the export prices of Irish products, and the prices of imported goods, since the middle of last year. This drop in export and import prices is creating severe competitive pressures for Irish factories and has also contributed to the fall in order books.

Since industry has to cut its prices on export markets and to compete with imports, it must also concentrate on reducing unit costs so that goods can still be produced economically in Ireland. We need to invest more in cost saving equipment, to increase our marketing effort in the growing markets of Continental Europe. The fall in export and import prices should reduce the need for most price increases on the Irish market. Agriculture prices too are falling. It should be possible to bring inflation close to zero by the end of the year and in this way enable industry to obtain orders which will enable our factories to expand production and maintain employment.

There is also intensifying competition for investment from Central and Eastern Europe. We must ensure that Ireland can continue to compete for mobile international investment projects. I welcome the decision announced on Friday last to extend the 10% tax rate for manufacturing industry to the year 2010. This low tax rate has been one of the most important incentives for attracting foreign investment to Ireland. But we must also ensure that the tax-free zones which exist in more developed countries of the European country are phased out in order to ensure that less developed regions, such as Ireland, can gain the full advantage of our financial incentives.

The proposed restrictions on Section 84 Financing for manufacturing industry and the reduction in accelerated capital allowances contained in the Finance Bill could not have come at a more inopportune time. It is obvious that Ireland has now to fight much harder for mobile international investment. This intensification of competition will be ignored at our peril.

Furthermore, I am very concerned at the proposal to exclude packaging operations from the 10% tax rate. This would have a very damaging impact on Ireland's prospects of completing the packaging of goods for consumers abroad. It has been very difficult to attract these operations to Ireland because of our distance from the marketplace. Many labour intensive small firms depend on such operations for their very existence.

In conclusion it is essential that the consensus approach of the last three years should be continued through this period of great difficulty and rapid change in our main markets. We must intensify our efforts to restore the competitive losses arising from the weakness of sterling by bringing inflation down as close to zero as is possible. The favourable results of the last three years show that working together we have the capacity to manage our way out of these difficulties. The continuation of the consensus approach of the Programme for National Recovery will provide the essential framework to maintain confidence, increase investment and improve employment prospects.

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