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Confederation of Irish Industry

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Speech by Liam Connellan, Director General, Confederation of Irish Industry, at Management Conference of the Plastics Industries Association, held in IIRS Conference Centre, Ballymun, on 12th June 1986 at 11.30a.m.

MASSIVE INCREASE IN INDUSTRIAL INVESTMENT NECESSARY

Innovation is an essential key to success in industry. Innovation involves the identification of opportunities in the marketplace and the development of products and processes which will enable these opportunities to be filled at an economic cost. The level of innovation depends crucially on the willingness of people to take risks, their ability to raise and remunerate capital, and the availability of technological skills.

*Innovation
in
Industry*

A recent survey showed that industry spent £80 million on research and development in 1984. Over half of this investment was made by chemical, electrical, and electronics firms. After discounting for inflation, industry increased its research and development expenditure by 10% per annum over the last two years. Almost 80% of this research was paid for by the company

and a further 11% funded by Government. The average research and development expenditure per R & D employee in industry is now about £40,000.

The rubber and plastics industry currently spends about £4 million annually on research and development and employs about 80 full-time R & D staff.

Industrial expenditure in research and development is lower than in other countries, because industrial profitability has been depleted following years of recession, and also because industry does not always have the highly qualified technical manpower available to initiate research projects. Many firms have not found it possible to finance the development expenditure required for the marketing and technology staff which is so badly needed. Until recently, risk capital has been heavily taxed and has not yielded a return for the personal investor comparable to that available from investing in Government gilts.

The ability of Irish industry to meet the wealth in job creation challenges of the economy depends on an increased rate of new enterprise formation and an accelerated up-grading of industrial technological capacity.

*Manufacturers
R+D*

INVESTMENT

It is sometimes argued that investment in research and development can be a substitute for investment in machinery. This is a fallacy. Irish industry needs both - more investment in machinery and more investment in research and development.

Industrial competitiveness is determined by a complex interaction of manpower, machines, materials, and money. Deficiencies in any one factor may destroy the effectiveness of the others.

There has been a significant fall in the level of investment in industrial plant and machinery since the beginning of this decade. In the 1960's and 1970's the volume of investment in additional and replacement industrial plant increased by about 11% per annum and as a result manufacturing output increased by about 6% per annum. Since 1980 the volume of investment in additional and replacement industrial plant has declined by 4% per annum and this has been a contributory factor to the stagnant output performance now occurring in industry.

There is now a need for a massive increase in manufacturing investment so that firms can keep up to date with technological development and expand output. The sustained expansion of manufacturing output at the 7% rate

Need for investment in machinery

set in the White Paper on Industrial Policy requires an annual investment close to £1,000 million or almost twice the current rate. However, we must also recognise that firms, individuals, and institutions, will not invest in industry unless there is a reasonable prospect of earning a return in excess of the cost of money. In other words, we must have a cost-competitive economy. The creation of conditions favouring such investment must be the top priority of Government and industry alike.

I welcome the additional incentives for personal investment in industry announced in this year's Finance Bill. Until recently funds which could find a risk-free outlet in Government gilts were given far more favourable tax treatment than investment in industry. This situation is now beginning to change. Individuals working in industry can set off annual investments of £750 as an income tax allowance thus reducing the cost of the investment by up to 58%. In most cases where employees borrow in order to buy shares in their firm, the interest is allowable against income tax liability.

People who are not employed in industry can invest in private companies and companies which float their shares on the Smaller Companies Market on the Stock Exchange, and can offset up to £25,000 as an income tax allowance where the money is invested in manufacturing

firms or in certain service industries. Manufacturing dividends are subject to a reduced tax rate of about 25%. The long-term capital gains tax and the capital gains tax on dealing in securities on the Smaller Companies Market has been reduced to 30%.

I particularly welcome the introduction of new tax incentives for investment in research and development partnerships. A sponsoring manufacturing company may hold 49% of the shares in one of these partnerships and attract the remaining 51% of investment from private individuals who may offset up to £25,000 as an income tax allowance.

*R+D incentives
Expenditure*

In view of the relatively small numbers of technical manpower in industry, it is regrettable that hundreds of well-qualified young science and technology graduates must emigrate to obtain employment. Although industry needs far more technologists, many firms are not in a position to incur this development expenditure because of low profitability. Last year industry recruited almost 1,000 newly qualified third-level award holders, an increase of 30% on the previous year. The majority of these had engineering or science qualifications. The chemicals and plastics sector accounted for 128 of these appointments.

*New graduate
recruitment*

I welcome the incentive for recruitment of young graduates provided under the STEP programme for

*STEP
Programme*

recruitment of young scientists and technologists. This
has been of critical importance in helping small firms to
acquire a young technology graduate for the first time.
Over the last two years about 150 technologists were
recruited by small firms under this scheme, and they are
now contributing to the development of Irish industry,
when they might otherwise have emigrated or been
unemployed. This is an excellent programme because it is
self-financing. Every newly qualified technology graduate
can create through his or her effort jobs for many other
people as he or she gains experience and applies skill to
the development of new products and processes. The aim
must be to create opportunities for all the young
scientists and technologists qualifying in Ireland so that
they can apply their energies to the development of our
economy. They have youth, energy and brain power.

It is not only necessary to take up the existing
output of technologists from our third-level institutions
but to expand this output by 25% per annum as recommended
in the recent OECD Report on Innovation in Ireland. This
way over the next few years Ireland could employ
proportionately as many new science and technology
graduates as Japan, the United States or France. I would
hope that the programme which was extended to 100
placements this year will be expanded very significantly
in the coming year. It is a major waste of valuable

*Need to
expand STEP
Programme*

resources when up over 600 newly qualified science and
technology award holders emigrate when they could be
contributing to the expansion of industry in Ireland.

CONCLUSION

I hope that in the coming year far more funds will be attracted into innovative investment in Ireland. I welcome the moves to reduce the tax disincentive for personal investment in industry, and strongly support all efforts to increase the recruitment of newly qualified technical staff in manufacturing industry.