



## Confederation of Irish Industry

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### PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry at CII North Dublin Regional Meeting at International Airport Hotel, Tuesday, 12th April 1988 at 1.00p.m.

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#### IRELAND SHOULD HARMONISE INDIRECT TAXES WITH THE REST OF THE EUROPEAN COMMUNITY ON A PHASED BASIS BY 1992

The programme for the creation of a Single European Market by 1992 incorporates a series of proposals to apply similar excise duties on a wide range of products and to bring Value Added Tax bands between the member states of the European Community into line. There will be two Value Added Tax rate bands; a lower band from 4-9% for necessities such as foodstuffs, and a standard rate band of between 14-20% for other goods and services.

While these changes will require some restructuring of Irish taxes and public expenditure levels, it is essential that a programme be implemented on a phased basis over each of the next four years and be completed by 1992.

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The advantages to Ireland of implementing this programme on schedule include the following :

1. The direct impact of bringing Irish indirect taxes into line with the rest of the Community would reduce consumer prices in Ireland by about 3% with consequential improvement in the competitiveness of our economy, and in opportunities for job creation.
2. The fiscal borders between all member states would be abolished resulting in the elimination of customs clearance costs and more efficient distribution. An EC report - the Cecchini Report - published last week forecasts that consumer prices will fall by about 6% over a five year period as a result of increased competition, economies of scale and lower distribution costs.
3. Harmonisation of indirect taxes and the elimination of border controls also implies more uniform food prices throughout member states. A different approach to green currency rates at present results in wide variations in food prices especially between Britain and Ireland. This gives British industry as a whole a cost advantage over Irish competitors which should be eliminated as more uniform food prices prevail in a single market.

4. The creation of a Single European Market is expected to result in a up to 6% faster economic growth, and an increase in employment of up to 4% within five years.
  
5. Loss of business due to distortion of competition between Northern Ireland and the Republic would be eliminated with beneficial effects in the main border towns of the Republic.
  
6. There would be less incentive for smuggling between Northern Ireland and the Republic with consequential savings in revenue loss to the exchequer, and in prevention costs.

It can, therefore, be seen that Irish industry would be at a severe disadvantage if Ireland did not participate fully in the process of harmonising indirect taxes in order to reduce prices, increase efficiency and eliminate distortions of competition. The Minister for Finance has pointed out that the gross cost to the exchequer could be £470m. in the initial year and £350m. recurring each year thereafter. This reduced level of revenue could be accommodated by gradual adjustments over a four year period of the order of £100m. per annum. If this were to be funded solely by reducing public spending, it would require a reduction in spending of only 1% per annum over each of the next four years - and this lower level of

spending would also have to be maintained in subsequent years. Alternatively, the advantages outlined above such as lower prices, improved competitiveness, lower distribution costs, less smuggling, elimination of distortions of competition, elimination of border customs clearance formalities, faster economic growth, and a more rapid increase in job creation should offset much of the loss in revenue to the exchequer. Furthermore, it is hoped that there will be some assistance available from EC sources to ease Ireland's adaptation process.

It would not be desirable for Ireland to seek a derogation from the process of harmonising indirect taxes. This would mean that Irish industry would be forced to incur unnecessary border clearance charges, distribution costs, would have to accept continued distortions of competition, and would have to pay higher prices for imported materials than its competitors. It would also be interpreted as a signal that Ireland was not a fully integrated member of the European Community, which could inhibit investment.

In conclusion, I would strongly urge that the first stage of harmonising Irish indirect taxes with other Community countries should commence in 1989. This would convey a clear message that Ireland is fully committed to the creation of a Single European Market leading to improved competitiveness for European products on world

markets, faster economic growth and greater job creation. Simultaneously, it is essential that a major programme to improve the quality of our transport infrastructure be implemented, financed by the doubling of the EC Structural Fund allocation to Ireland over the next five years. We must avail of the opportunity to rapidly increase efficiency so that we can gain the maximum advantage from the Single European Market.

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