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Member of UNICE - the voice of European Industry

Comments by Liam Connellan, Director General, Confederation of Irish Industry, at Irish Council of the European Movement Conference at Industry Centre, University College Dublin, Belfield, Monday, 2nd October 1989 at 2.15p.m.

THE INDUSTRIAL RESPONSE

Industry supports the central argument of the NESC Report that full economic, monetary, and social integration within the European Community is in Ireland's best interest.

Industry in Ireland exports 80% of its output, most of which is sold within the European Community. It therefore has a vital interest in ensuring free access to all the markets of the Community. It wants the elimination of all the physical, technical and fiscal barriers to trade. Irish industry has no interest in protectionism since protectionism would merely reduce the competitiveness of exporting firms and those competing with imports which together account for more than 90% of all Irish manufacturing output.

Past Performance

Irish industrial output has expanded annually at a rate more than twice the EC average since we joined the Community in 1973. There has been a marked change in the structure of Irish industry as firms have concentrated on their core businesses and sub-contracted components and services where practicable. As a result, industry has become more efficient, more competitive, and increased its output and productivity sharply. There has been a rapid growth in the number of small firms providing sub-contracted components and services to industry. In common with other European countries the growth of the services sector has brought down the average annual productivity change of the whole economy from more than 4% in the 1960s to between 2% and 3% since 1973. The services sector now accounts for about 60% of employment in Ireland and throughout the European Community.

Industry remains the primary source of output and wealth generation. It accounts for almost 40% of the output of the economy, and is the foundation on which most jobs in the country are supported.

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Changing Structure of Manufacturing Industry in Ireland

Irish manufacturing industry is divided into three broad sectors each of which has shown a different rate of development. The new technology sector comprising electrical, electronics, chemicals and pharmaceuticals has expanded by 15% per annum since 1973 and now accounts for about half of all manufacturing output; the food, drink and tobacco sector has expanded by 3% per annum and accounts for about a quarter of total manufacturing output; and the traditional sector comprising textiles, clothing, footwear, furniture, paper, packaging, building materials etc., has declined by an average of 2% per annum since 1973 and account for the remaining quarter of manufacturing output. Each of these three sectors has shown improved performance over the lat three years with the result that total Irish manufacturing output has expanded by more than 10% per annum.

The Attraction of the Single European Market

The main attraction of the Single European Market is summarised in the Cecchini forecast that with co-ordinated policies the European economy will grow in the years post-1992 by 7% faster than jobs will increase by five million more than would otherwise have happened. This will be achieved by the achievement of free movement of goods, people, services, and money and the elimination of the physical, technical and fiscal barriers to trade. European industries will be more competitive on the world market and will be better able to compete with imports on the home market.

Since industry in Ireland has out-performed industry throughout the rest of the Community in the period since 1973, and is continuing to do so today, it can look forward to participating in a more dynamic European economy with confidence and enthusiasm. Every Irish manufacturing firm having more than 50 employees must develop a strategy which will ensure that it can service a market of 320 million people. It will have to decide on its role either as a large scale producer of standard products, or as a specialist producer of niche products. It must decide to grow organically or by acquisition; to take over other firms or be taken over; to form joint ventures or partnerships; or to negotiate technology transfer or franchise agreements. Above all, it must have a strategy to ensure survival in this large market.

Sensitive Sectors

The recent European Commission report "Employment in Europe 1989" identified six industrial sectors on which the creation of the Single European Market will have a significant impact. These are :

1. Industries showing strong growth but in which the EC is competitively weak. This grouping includes computers , telecommunications, and medical equipment.

2. Industries where there are high non-tariff barriers and a wide dispersion of prices throughout the Community. This group includes pharmaceuticals and drinks.

3. Industries requiring rationalisation such as chocolates, cables, and electrical machinery.

4. Basic consumer goods which have high import penetration from outside the Community. This group includes clothing, radio and television appliances, domestic electrical appliances, and motor cars. The external trade policy of the Community is critical to this grouping.

5. The distribution sector. Parallel imports whereby consumers can purchase direct from suppliers in other member states will have a substantial impact on this sector.

6. The transport and financial services sector. The freedom to provide services in other member states without requiring to set up an establishment will have a significant impact on these sectors.

Strategic Issues: Manufacturing

Manufacturing firms will have to examine a wide range of issues including economies of scale; alternative component sourcing; the opportunity to become a specialised globally competitive firm; the need to meet different consumer tastes; and to comply with technical standards.

In many industries the top five European companies already account for a very high proportion of total output. For example, in the aerospace and computer industry they account for two-thirds of EC output; in tobacco, drink and pharmaceutical for about one-third; in food for one-seventh, and in textiles for one-tenth. There is now a strong trend towards concentration in many parts of the food industry. Recently two major Dutch dairy co-operatives entered negotiations to form a combined company of £1.6 billion sales. Major Irish milk processors believe that it will be necessary to achieve a scale of £2 billion sales within five years in order to become a major force on the European market.

Strategic Issue - Distribution

The abolition of barriers throughout the European Market will have a substantial impact on distribution networks; warehousing locations; and will require emphasis on ensuring that each company has a strategic presence throughout the market and can transport its goods quickly and cheaply to the customer.

Ireland must give the highest priority to improving transport and distribution systems. Today 70% of Irish industrial output is sold within 700 miles or a two-day delivery period by truck from the East Coast of Ireland. One hundred and thirty million people live within this delivery radius. By improving the speed and efficiency of transport systems, we can bring more people within this delivery time span and increase the possibility for expanding output and employment in Ireland.

Conclusion

There can be little doubt that Irish firms must continue to expand rapidly over the next five years in order to become major players in the Single European Market. Investment, like trade, is a two-way process. Just as firms from other member states will set up factories in Ireland, Irish firms will find it necessary to buy distribution networks and production facilities in other parts of the Community in order to increase their share of the European market, and to strengthen their companies.

Investment will flow to Ireland as long as we maintain conditions of competitive inflation, interest rates, and a high quality infrastructure, comprising transport, education and training, energy, and telecommunications. The strong growth of manufacturing industry in Ireland over the last twenty years and the current dynamism of the manufacturing sector makes me confident that there is potential for the continued strong and sustained growth of manufacturing industry in Ireland.

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