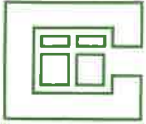


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PRESS RELEASE

The Confederation of Irish Industry

IMPACT OF THE EEC ON IRISH INDUSTRY

Speech by Mr Liam Connellan, Director General,
Confederation of Irish Industry, at "BUSINESS AND EUROPE"
Conference at the Institut de L'Entreprise, Paris, at
14.30 hours on Thursday, 8 December 1977

In May 1972, 83% of the Irish electorate voted in a referendum to join the European Community. This massive 'YES' vote indicated that all sections of the Irish community were strongly in favour of joining. In particular, this applied to economic sectors such as agriculture and industry. The Community was seen to present an opportunity for market diversification and a significant growth in exports. It would also provide Ireland with the possibility of participating as a full member in building up a European Community economically, socially and politically.

It is appropriate that, after five years of membership, we should now review the changes which have taken place and measure how well the hopes of 1972 have been realised.

The Irish economy diverged from the European norm in a number of key areas. It had, proportionately, almost three times more people employed in agriculture; and not much more than half the average dependence on manufacturing employment. Its GDP per capita was only 55% of the Community average. It had tariff barriers of 16% against goods coming from the United Kingdom; 60% against goods coming from other Western European countries; and 75% against consumer products coming from Third Countries. It, also, sent two thirds of its exports to its major customer - the United Kingdom. Finally,

unemployment, at 6% of the workforce, was almost twice the Community average. Emigration had stopped and the population was growing faster than in any other Member State of the Community.

Let us now look at some of the main indicators of performance to see how the Irish economy has adapted during the transition period. Protective tariffs have been eliminated against imports and access to the original EEC has been opened up for Irish exports. Unfortunately, while all these changes were occurring, the economy had to cope with the worst recession since the second world war.

The Economy

Between 1971 and 1976, the output of the Irish economy expanded in line with the economy of the European Community. It is estimated that the output of the Irish economy expanded by 19.5% compared with a growth of 17.5% in the total EEC economy.

The impact of the recession on Ireland was reduced by the fact that 1975 was a particularly good year for agriculture. Industrial output in that year, however, declined by as much as in other EEC countries.

Industrial Growth

Industrial output expanded much faster than in any other Community country and is now one third above its 1971 level. However, even this relatively good performance is far from adequate, since there has been little, if any, growth in industrial employment, due to the necessity to keep pace with technological change.

Membership of the Community brought with it many advantages and some disadvantages for industry in Ireland. Many new firms from other Member States in the Community and from Third Countries set up manufacturing bases in Ireland. It is likely that these firms accounted for all the net industrial growth which has occurred during the last five years. The established industrial base has had difficulty in maintaining its output in the face of the elimination of tariff barriers. Some established industries, such as food processing, have shown a healthy growth in response to the much more favourable climate for agricultural production. On the other hand, industries, such as traditional textiles, clothing and footwear have suffered serious declines in output, due to the elimination of tariffs and intense world-wide competition.

Diversification of Trade

- a) Exports : There has been a marked diversification of Irish trade since 1971. In that year, two thirds of Irish exports were sent to the U.K. and 8½% to the other countries of the EEC Nine. By 1977, the proportion of exports sent to the U.K. had declined to 47%, and 28% are sent to other EEC countries, in particular Germany, France and the Netherlands.

This diversification of export markets shielded the Irish economy from the worst effects of the recession, since our major market in the United Kingdom was more depressed during this period than the market in some other Member States. The diversification had the added advantage of intensifying the integration of the Irish economy with the European economy. The main contributors to this

diversification of trade were the food based industries which had free access for the first time to the markets of the original Six; the new industries which set up in Ireland in order to supply the markets of the original Six; and, finally, the older established Irish industries. The lead was provided by the first two segments which justified the provision of better and more regular transport services between Ireland and the Continent and, thereby, facilitated the expansion of exports by older established industries.

I do not believe that the process of diversification has yet been completed and expect the markets of the original Community to account for an increasing proportion of Irish exports over the next five years.

- b) Imports : The pattern of imports has been much more stable. The United Kingdom remains Ireland's major supplier, supplying 47% of imports, whereas the remaining Member States supply only 20%, compared with 17% five years ago. However, this must be seen in the context of a quadrupling in the value of Irish oil imports, over 50% of which are routed through the United Kingdom for processing. When oil imports are separated from the analysis, the share of imports supplied by Member States, other than the U.K., shows a significant increase.

Almost three quarters of total Irish trade - imports and exports - are with other Member States of the EEC. Thus, Ireland sends a higher proportion of its exports to other EEC countries than any other Member State and it buys a higher proportion of its imports from other EEC countries than any other Member State.

Impact of Community Policies on Irish Industry

- a) Regional Policy : When Ireland joined the EEC in 1973, the Community Regional Fund was seen as a major instrument for narrowing the living standards gap between Ireland and the rest of the Community. So far, this has been a disappointment. The Fund has been too small to have any significant impact. I believe that the Fund could make a major contribution to developing the infrastructure of roads, ports and telecommunications to link the Irish economy more closely with that of the other Member States of the Community.
- b) FEOGA : The FEOGA Fund for restructuring the food processing sector has proved beneficial but relatively small in scale. With 5% of the agricultural land of the Community and only 1½% of the population, it is clear that industries based on agriculture must always play a major role in Irish economic development. Increased investment in the food processing sector will generate the demand for an increased agricultural production. Since 90% of the production value of food products represents value added in Ireland, the effect of expansion of this industry on output and employment in the economy can be enormous.
- c) Distortions of Trade : The European Community is a common market. It is vital to ensure that the free movement of goods within the Community is based, not only on the principle of free trade, but also of fair trade. I would refer to two specific areas of trade distortion which have a negative impact on output and employment of sectors of Irish industry. The first is

the distortion which can be caused through the non-application of Monetary Compensatory Amounts to certain processed food stuffs. Thus, countries which have Green Pound rates above actual exchange rates are receiving a subsidy on raw materials which is not taken into account when these products are traded between Member States. Secondly, the use of counter-redundancy employment subsidies to assist manufacturing firms can cause major distortion, where these subsidies are selective in their impact. Labour intensive industries in Ireland, such as clothing and traditional textiles, have suffered from the application of such subsidies in other Member States. They are, in effect, simultaneously, an import tariff and an export subsidy and, as such, distort trade flows.

It is essential for the balanced economic and social development of the European Community that an active Regional Policy should be introduced. The incentives provided for industrial development should be graded with none, or minimal incentives, in the most developed regions and the greatest incentive provided in the least developed regions. Although this would appear a logical first principle, there are wide variations in practice. It is not unusual for more developed regions to introduce incentives or, worse still, subsidies, which less developed areas cannot match because of lack of funds. Regional policy should influence all other policies. Care should be taken to ensure that harmonisation policies, which are not discriminatory in intent, should not discriminate in practice against the less developed region e.g. transport and consumer protection legislation.

Conclusion

Over the last five years, the Irish economy has expanded at the same rate as the European Community average. Industrial development has grown more rapidly than in any other Member State but, because of the intervention of the international recession, this growth has not been sufficient to provide a significant increase in industrial employment. The period of tariff reduction is over. The industrial firms which have survived have proved themselves to be internationally competitive. The population is still growing and unemployment now stands at 9½%. In 1977, there will be an increase of close to 10% in industrial output and 4% in industrial employment. In order to meet the economic and social needs of the Irish economy, the output in the trade and manufacturing industry must be increased to a sustained 15% per annum, resulting in a growth rate of 7½% per annum in manufacturing employment.

This can best be done by intensifying the process which was begun five years ago. We must continue to develop the closest trading, investment, economic and social links with the central areas of the European Community. Irish industry has made some progress. It has the ability to build on the foundation of the last five years and sees its future development within a dynamic European Community.
