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DEVELOPING STRUCTURES FOR THE DEVELOPMENT OF INDUSTRY

BY

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INTRODUCTION

The study of operations research is the pursuit of optional solutions. For this reason I would like to comment on, firstly, the current performance of Irish industry and then, more specifically, on structure of the environment within which industry operates. I shall raise a number of issues which I believe require detailed study to ensure minimal waste of resources.

Industrial output is expected to grow by, at least, 9% this year, helped by buoyant retail sales and exports. Retail sales, a rough indicator of home demand, have increased by 8 % in volume during the first six months of this year, and exports have increased by 35% on the first eight months of 1972. Of these exports 10% go to Northern Ireland, 50% to Britain, 20% to the old EEC, 10% to North America and 10% to the rest of the world. The most rapidly growing market for our exports is the old EEC, exports to which have grown by 150% over 1972 levels. Prospects for the coming year are clouded by a forecast slowing down from 6% to 5% in our major markets next year, and by difficulty in maintaining relative competitiveness with Britain.

Next I would like to comment on some aspects of the framework within which industry operates, in the following order :

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1. The structure of industry
2. Manpower forecasting
3. Financial incentives and penalties
4. Transport
5. Energy

1. The Structure of Industry :

It is necessary to define the industrial structure required in the 1980's, the sectors of industry we want to foster, and the sectors we are prepared to allow die. We must define those sectors in which Ireland has or can develop a unique competence in the structure of European industry.

The strengths on which the international success of our major manufacturing companies have been based must be analysed, together with the opportunities and threats facing these industries. It should be possible also to make explicit a series of desirable characteristics for types of industry likely to be successful in Ireland. These will, obviously, include criteria such as high added value to sales ratio, high price volume ratio, high in knowledge content, specialised in production, relatively low in capital intensity, low pollution characteristics, local materials and high quality.

Irish industry may already be too diversified. Should we focus industrial resources in a more limited number of sectors in which it can be demonstrated we can develop a European specialisation, and which is appropriate to our manpower, financial resources and our geographical location? These industries might include meat processing, fish processing, fine chemicals, electronics, beer, precision engineering, crystal glass, leather products and synthetic textiles. I am not suggesting that these should be the only industries in Ireland, but rather that the main emphasis of resource allocation might be towards a set of clearly defined sectors. Nor do I suggest that all firms must be large to develop a European specialisation. The operation of an industrial business contact bureau in Ireland to foster linkages between small and medium size firms for the sharing of know how, market information, technology, buying power, training, design and/or selling could help overcome the disadvantages of small scale, while retaining the advantages in innovation, quality and flexibility which many of these firms possess. The Confederation intends to promote this concept of linkages between Irish firms, just as it is also promoting the operations of the 'EEC industrial marriage bureau'.

The clear definition of a target industrial structure will provide a framework within which gaps can be filled, education and training facilities provided, industrial research directed, financial incentives and taxation policies evolved, market research more tightly focussed and all resources allocated with greater selectivity.

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2. Manpower Forecasting :

In an ideal society there would be an exact balance between the number of jobs available and the number of job seekers. Reality varies from this ideal because there is unemployment and/or there are insufficient suitably qualified applicants for the jobs available. Thus we find that although there are 61,000 people unemployed there may be shortages of particular skills e.g. skilled female labour in the clothing industry, or skilled craftsmen in the engineering industry.

The balance of supply and demand of labour must be managed so that the number of unfilled vacancies is reduced to a minimum. This requires forecasts by region and by trade of manpower requirements, classification of the excess supply of labour, classification of school leavers, and education and training to meet forecast demand.

The regular publication of a classified list of unfilled vacancies, and its comparison with the unemployed register would provide a useful system for monitoring the effectiveness of our forecasting, and the relevance of speculative educational and training resources. Again the objective is tight allocation of scarce resources.

3. Financial Incentives and Penalties :

The Government operates a system of financial incentives to promote the growth of industry, and also removes the fruits of that growth by taxation on profits. Thus approximately £28 million is provided annually for the development of industry and approximately £35 million is siphoned off from profits, the greater part of which would normally be reinvested.

Profits are essentially a contribution to growth. Incentives to industry to achieve growth or restructuring can be provided either by a reduction in the siphoning off process or injecting new finance. It is surely anomalous that Ireland has a corporate taxation system which is amongst the most severe in Europe and, at the same time, has a scheme of industrial incentives which is probably the most generous.

The industrial incentive and taxation system should be considered as a whole so that the maximum effect is achieved with the minimum of administrative effort. Thus it may be possible to achieve our industrial targets by amelioration of taxation laws to achieve these objectives e.g. specific tax reliefs for target growth sectors, for reserves set aside for capital investment within a defined period, for export profits, for new projects successfully introduced, for new markets exploited, for industries where competing imports have over 50% of the home market, etc.

4. Transport :

A substantial portion of the resources of the Republic are expended annually on transport. The annual cost of rolling stock and railways; cars, lorries and roads; aircraft and airports; ships and ports; with their associated personnel and administration overheads probably exceeds 15% of GNP. In other words, the transport industry is a greater cost centre than the tourist industry, the food industry, the engineering, or the building industry.

It is clear that where an industry absorbs such a substantial part of our scarce resources, its operation deserves the closest examination in order to achieve the optimum return. Even a small percentage saving is likely to be significant in absolute terms. We cannot afford to have a system, or section of a system, which is inefficient, or which increases cost above the minimum.

Our objective, therefore, must be to provide a national transport system which will give a defined level of service to its users at minimum cost. This national transport system must be seen as a whole, with the role of each of its elements, and the linkage between each element, clearly defined. Thus, the link between shipping and rail, between rail and road, between road and port, between air and sea, between road and air, between public and private transport, between taxation and vehicle maintenance, must all be considered as part of a total plan; and in the context of the whole island.

The Confederation is currently engaged on a study of industrial freight costs, and expects to make a submission to Government in early 1974.

5. Energy:

The current world shortage of oil refining capacity, and the higher oil prices caused by the increased bargaining power of the OPEC countries have pinpointed the need for an Irish energy policy. Many developed countries are seriously concerned to reduce their dependence on imported energy supplies, and also to promote "downstream" development of the major energy consuming industries in Middle Eastern countries.

Ireland uses many forms of fuel for energy production. These include hydropower, turf, coal, oil and gas. It is desirable that an attempt should be made to define the best use of these resources; to examine how dependence on imports can be reduced; to accelerate the search for oil and gas resources off our coasts; and to promote the efficient use of fuel in homes, in motor cars and in factories. It is worth noting that total imports of oil and gas in 1972 was £28 million. Even a 1% saving would free over a quarter of a millions pounds for other purposes.

It is essential that a national Energy Policy is developed without delay.

Conclusion :

Industry is growing rapidly. Its growth must be sustained. The framework within which industry operates must be planned so that the best use can be made of scarce resources. A target industrial structure must be defined; manpower forecasting methods improved; the proportion of unfilled vacancies monitored; industrial incentives and taxation considered as a package; the transport system integrated on and from the island; and an energy policy developed which will guarantee supplies and minimise cost. Furthermore, each of these areas should be examined jointly with Northern Ireland so that the best use can be made of all the resources on the island.

I have no doubt that the National Economic and Social Council will be examining these issues. The Confederation looks forward to making a full contribution to the development of an environment within which industry can maximise its contribution to the economy.

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