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Speech by Liam Connellan, Director General, Confederation of Irish Industry, at CTT Annual Conference, 17th December 1986

THE OPPORTUNITY TO EXPAND EXPORTS

In this paper I shall concentrate on five issues :

The Specialisation of Industry;

The Evolution of Industry;

A Strategic Export Thrust;

Exporting as an Integral part of Total Economic Relationships;

The Evolution of Policies for Export Development.

THE SPECIALISATION OF INDUSTRY:

Ireland supplies only 1% of European demand for industrial products. However, in particular sectors of industry Ireland's contribution is much greater. For example, Ireland supplies 5% of Europe's milk and 7% of the beef market. Waterford Glass is the largest crystal and china firm in the world. Aughinish Alumina is on a par with the largest bauxite processing plant in Europe. GPA is the largest aircraft leasing company in the world in its particular market segment. Ireland also has the largest European manufacturer of industrial diamonds, and one of the largest breweries.

INDUSTRIAL SPECIALISATION

In recent years Irish companies have demonstrated a capacity to expand outwards by buying market share in other countries. For example, there are now five Irish companies among the top five hundred in Europe. These are, AIB, Bank of Ireland, Smurfits, CRH, and Waterford Glass. Many other Irish companies such as Glen Dimplex, Independent Newspapers, Fruit Importers, and the Clondalkin Group have expanded strongly in overseas markets.

In line with the development of a single European market, Irish industry is concentrating on a range of specialised products for the total market. These products are being manufactured in Ireland on a European scale. Such developments suggest that any examination of the likely trend of Irish export diversification must devote considerable attention to the purchasing power of the different member states of the Community.

Total Irish exports are concentrated in a small number of companies. For example, 100 exporters account for 70% of total exports. About one-third of these firms are indigenous. The top ten firms account for 30% of total Irish exports. It is interesting to compare this performance with Japanese experience where the top six trading companies account for about 40% of Japanese exports. It is likely that the trend in Ireland will be towards greater specialisation, and concentration.

TOP 100 EXPORTERS

Irish industry exports 70% of its output. The home market is becoming less important except for smaller and medium-sized companies. Our export performance is becoming almost synonymous with output performance. For these reasons Irish industry has been a strong proponent of the development of the European "internal market". While this development may cause some difficulties for firms competing on the home market only, the fact that 70% of industrial output is exported means thaT the balance of advantage for industry lies in having unhindered access to all the markets of the European Community.

THE EVOLUTION OF IRISH INDUSTRY

Ireland now has 16% of the workforce engaged in agriculture compared with 7% in the European Community. 28% are engaged in industry compared with 35% in the European Community; and the proportion in services at 56% is broadly similar to the rest of Europe.

The proportion engaged in agriculture in Ireland has been falling steadily from about 23% in 1973 to 16% today.

STRUCTURE OF EMPLOYMENT

The output of manufacturing industry has expanded by an average of 6% per annum since 1958. However, this growth rate has slowed down slightly in the early part of the 80s to 5%, and this year the industrial rate growth will be less than 2%.

One of the main reasons for the poor performance in 1986, at a time when international trade is relatively buoyant, has been the sharp decline in competitiveness due to the weakening of sterling. 1986 was the first time for many decades when the Irish currency actually strengthened sharply. Another reason was the decline in chemicals and pharmaceutical output, normally a growth sector.

There has been a significant difference in the performance of the three main sub-sectors of manufacturing industry since 1973. For example, the new technology sectors expanded by 15% per annum; the food sector by 3% per annum, and traditional sectors declined by 2% per annum.

The top five Irish exports in 1985 were computers 18%; chemicals 15%; meat 6%; dairy products 6%; and electrical machinery 4%. This concentration of exports demonstrates the increasing specialisation of the Irish economy.

Since 1973 there has been a marked diversification of Irish export markets. In 1973 55% of Irish exports were sold to the United Kingdom and 21% to Continental EEC countries. In 1985 for the first time Ireland sold more to Continental EEC countries at 35% than to Britain 32%. In 1986 the proportion sold to the enlarged Continental EEC countries increased to 38% while the proportion sold to Britain was 33%.

A STRATEGIC EXPORT THRUST

Some conclusions can be drawn from an examination of the purchasing power of different European countries. For example, Britain accounts for only 20% of EEC purchasing power whereas Germany accounts for 28% and France 23%. In 1985 the proportion of Irish exports sold to the EEC were 49% to the United Kingdom; 15% to Germany; and 12% to France. It seems inevitable that there will be a greater convergence between purchasing power relativities and the proportion of Irish exports sold to different markets.

GEOGRAPHIC DIVERSIFICATION OF EXPORTS

It is estimated that by 1990 the proportion of Irish exports sold to the United Kingdom will decline to about 25% and the proportion sold to other EEC countries will increase to about 45%.

The home market in the Republic of Ireland purchases £1,100 per capita from Irish manufacturers, while Northern Ireland purchases about £360 per capita from Southern manufacturers.

About 74% of Irish exports are sold to European countries. These can be divided into three broad bands :

a) **an inner band** comprising Britain and the Benelux countries where purchases of Irish products amount to about £50 per capita;

b) **a middle band** of countries comprising France, Germany, Switzerland, and Norway and Sweden, which purchase about £20 per capita of Irish products; and

c) **an outer band** of peripheral countries comprising Portugal, Spain, Greece, Italy and Finland, which purchase about £5 per capita of Irish products.

Approximately 44% of our total exports are sold to the inner band countries; 24% to middle band countries, and 6% to the peripheral countries. In view of the population densities, purchasing power relativities, and the trend towards specialisation, it would appear that the greatest opportunities for the expansion of Irish exports lie in the development of an export front radiating from the Benelux countries into North Eastern France, and Northern Germany.

The primary inhibiting factors to developing these

FACTORS INHIBITING EXPORTS

markets would appear to be (a) language, and (b) the speed and cost of transport.

At present only 4% of students sitting for Leaving Certificate examination take study German as an examination subject and 61% take French.

Some firms state that they can deliver products from Ireland to Denmark in 36 hours over the "landbridge", others state delivery of 48 hours to Frankfurt from the Irish Midlands. The importance of delivery speed is shown by comments from exporters that firms in Denmark are not prepared to purchase products from Italy, because of the excessive time taken to transport goods to Denmark.

A further approach to accelerating the penetration of Continental markets, would be to place in Continental EEC countries for a period of one year 1,000 export trainees who already have a good knowledge of French and German.

EXPORT ACTIVITY AS AN INTEGRAL PART OF TOTAL ECONOMIC RELATIONSHIPS

The Confederation has recently set up a Working Party to examine how total economic relationships with the Federal Republic of Germany might be deepened. It is considered that most economic activities are interdependent, and complementary to one another. The

~~EXPORTING~~ ~~ECON~~ GERMAN/IRISH ECONOMIC RELATIONS object of the examination is "to get all arrows pointing in the same direction" and gain advantages from synergy. The following sixteen points indicate a possible approach regarding the deepening of economic relationships between Germany and Ireland :

1. Promote the image of Ireland as an industrial nation by two-way visits between Ministers, senior industrialists, and other high profile public relations activities.

2. Promote the teaching of German in Irish schools at second and third level.

3. Place Irish graduates in Germany for work experience, through programmes such as the European Orientation Programme.

4. Place graduates and executives with German experience in Irish industry.

5. Promote two-way tourism.

6. Increase the speed and reduce the cost of freight and passenger transport.

7. Conduct seminars to highlight the growth segments of

the German market.

8. Arrange fact-finding visits to Germany by potential exporters.

9. Arrange small selling missions to various German locations on a sectoral basis.

10. Arrange small inward buying missions from Germany to Ireland on a sectoral basis.

11. Promote group marketing by Irish firms in Germany.

12. Promote Irish participation in specialist trade fairs in Germany and visa versa.

13. Recruit a foreign trade/transport executive to assist twenty small/medium-sized companies. The costs would be met by the companies concerned.

14. Develop sub-contract and linkage programme arrangements between Irish firms and major German firms.

15. Promote joint ventures between German and Irish companies.

16. Promote German industrial investment in Ireland, and vice versa.

The Working Group considered that all of these activities can make a contribution in promoting economic relationships between the two countries. A similar approach could be adopted regarding other markets.

THE BRITISH MARKET

In 1978 Ireland supplied 4% of British imports. This fell to 3.3% in 1982, 1984, and 1985. While it is obviously desirable to improve this share to the 4% achieved in 1978, there are two offsetting factors :

BRITISH MARKET

a) Increased specialisation in the Irish manufacturing sector as products are manufactured for and sold on the total European market;

b) Increased competition on the British market because of the development of the "European internal market".

POLICIES FOR EXPORT DEVELOPMENT

It is suggested that the following issues might be addressed in developing policies to accelerate export growth.

EXPORT DEVELOPMENT POLICIES

1. Priorities in the allocation of incentives should be

given to projects which yield the best economic return. The determination of the return should attempt to assess the potential increase in export added-value per pound of grant provided. Since two-thirds of the top 100 exporters are foreign-owned companies, it is likely that the greater part of incentives would be provided to medium to large indigenous firms. However, it is also possible that some smaller firms may have a high potential to increase exports in the short term.

2. Priority should be given to grant-aiding individual company activities rather than large group activities.

3. Where group missions are organised these should be small sectoral groups to and from specific markets. This is applicable to inward buying missions and outward selling missions.

4. Priority geographical markets should be agreed with industry on the basis of a three year annual rolling review.

5. Consideration should be given to the introduction of charges in order to fund an expansion of the export services provided by CTT. These charges might be

introduced gradually for certain specialist services such as information, research, and selling. The introduction of charges has the advantage that it places a value on the services rendered, and ensures allocation of resources according to the perceived value by industrialists.

6. The joint CTT/CII action programmes on marketing awareness should be continued.

7. The collaboration between CII and CTT in the European Orientation Programme, should continue and it is hoped that there will be a significant increase in the number of placements in 1987. The ultimate target should be to place 1,000 marketing trainees in Continental EEC countries.

8. The Export Executive Recruitment programme should be continued. This collaborative programme between CTT and CII resulted in the recruitment of over 100 export executives over the last three years. It is recommended that the numbers participating should be increased to two hundred. One of the primary reasons advanced for the success of Japanese firms in exporting to Europe has been that Japan has 20,000 export executives in Europe, whereas Europe has only 2,000 export executives in Japan.

CONCLUSION

There is now an exceptional opportunity to expand exports. Ireland produces only 1% of European demand. If this could be increased to 2% there would have very few problems relating to either unemployment or comparative living standards. Working together CII and CTT can make considerable progress towards this objective in the coming year.

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