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PRESS RELEASE

The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at the Annual Conference of the Commercial Agricultural Graduates Organisation at the Cill Dara Hotel, 11 a.m on April 22nd 1976.

The Contribution of the Food Industry to the Economy

Introduction :

During this paper I would like to concentrate on the contribution which the food industry makes to the economy; its potential within the EEC; the contribution which agribusiness can make to the creation of employment; some general comments on competitiveness; and finally, to make some comments on the way forward as I see it.

The Food Industry within the Irish Economy :

The food industry is the largest and most important sector in the Irish economy. It accounts for 44% of exports. 25% of the working population depends directly on agriculture. The food and drink sector in manufacturing industry comprises 26% of total manufacturing employment. The sector is particularly important because of its low requirement for imported inputs. About 94% of the final value of food products is added in Ireland. Furthermore, employment in the sector is spread more evenly geographically than employment in any other industry. This is because manufacturing units tend to be placed close to their main source of supply in order to minimise transport costs. During the last decade, employment in

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agriculture has fallen by about $2\frac{1}{2}\%$ per annum. Agricultural output has grown by about 3% per annum, indicating a growth in productivity of, approximately, 6% per annum. The output of the food processing sector has grown slightly more rapidly than that of primary agriculture, since there has been an increased tendency towards downstream processing.

Irish Agriculture within the EEC :

Irish agricultural land comprises 5.1% of the agricultural area of the Community. Despite this, Ireland produces only 2.1% of Community output of all agricultural products. Our dependence on primary agricultural employment is relatively $2\frac{1}{2}$ times greater than the Community average. Similarly, the food processing in Ireland employs, proportionately, twice as many people as the Community average.

I do not interpret these figures as indicating that our dependence on agriculture and food processing is too high. On the contrary, I believe that the fact that productivity per acre in Ireland is less than half that in the rest of the Community indicates the very considerable scope for expansion which exists in the Irish food sector. An NESG report on jobs and living standards, which was published last June, indicated that output per head in agriculture in Britain and the smaller countries of the EEC in 1971 was, approximately twice as high as that in Ireland. If the output of primary agriculture in Ireland could be increased by 10% per annum, the number of people employed in agriculture

would start to grow again, instead of declining by, about, 6,000 per annum. Furthermore, the food processing sector, which currently employs 50,000, would require 2,000 to 3,000 additional employees per annum to cope with this increased output.

Growth of Processed Food Imports

During 1975, food, drink and tobacco exports increased by about 50% in value.

This remarkable performance was assisted greatly by intervention prices, together with a considerable destocking of the breeding stock and of young calves. This process has now been completed and food exports are now running at much lower levels than this time last year.

Some indication of the relative competitiveness of processed food products is provided by examining the growth in volume of imports on the Irish market during the last year. An examination of the imports of fifteen selected processed food products indicates a growth in the volume of imports over last year in excess of 50%. These products range from sugar and flour confectionery, dairy products, vegetables, to processed fish. The total value of imports during 1975 for these fifteen product groups was £34 million. The additional sales achieved by increased market share was approximately, £10 million, enough to provide about 2,000 jobs in the Irish economy. We are now living in a free, open economy, and it is inevitable that our own people will buy the best bargains available.

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Competitiveness

We have now arrived at a critical point in our economic development, and are in danger of repeating a mistake which was made between 1972 and 1974, when industrial costs were allowed to increase 8% faster than those in Britain. Developments in the British economy have a greater impact on Irish industry now than at any time since 1930. We are now operating in a single market, comprising 55 million people, having the same currency, language, free movement of goods, and similar distribution systems. In these conditions it is obvious that the sales of our products are very greatly determined by our competitiveness.

The proposed National Pay Agreement will have a damaging effect on employment in Irish industry. It is difficult to understand how anyone imagines that Irish industries can cope with average wage cost increases of 13% per annum, while their British counterparts incur increases between 3% and 5% per annum. We are starting with a very considerable disadvantage. During recent months, imports of British products have increased very dramatically, while Irish exports to Britain have actually fallen. There is ample evidence that a major cause of these increased imports is the fact that British consumer goods are getting a larger share of the Irish market. I have indicated the trend in processed food products. The same thing is happening right across the industrial spectrum.. There can be little

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doubt that, if the respective British and Irish proposals are implemented successfully, there will be tens of thousands more people out of work in the Irish economy by this time next year than would have been the case if we had held our costs in line with Britain.

Can we not face reality before it is too late? The Government has a clear responsibility to ensure that employment can be maintained in the manufacturing sector. Seasonally adjusted, unemployment is continuing to rise. Our exports are stagnant. Consumer goods imports are growing rapidly. Let us face the fact that we have priced ourselves out of, not alone the export market, but also, out of our home market in many cases.

The Way Forward :

I would like to conclude by mentioning five steps which I consider essential to getting industry growing again :

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1. Restoration of Competitive Position : The first objective must be to prevent the competitive position of Irish products from deteriorating further, particularly in relation to Britain.

2. Improvements in Productivity : Improved productivity is required at every level within the economy so that industrial, direct and indirect, costs can be reduced. Every Government decision should be examined for its effects on productivity. Ireland supplies such a small proportion of total EEC industrial output that the capacity for growth and export demand is, effectively, unlimited. Improvements in productivity will be reflected in lower prices, higher demand and more employment. However, increased market penetration will be achieved only by a strong and sustained marketing effort.

3. Marketing Effort : Considerable resources must be allocated to export market development. In recent months, there has been a significant shift in the pattern of our exports. Almost 30% of Irish exports are now sent to the old EEC, compared with 10% only five years ago. Most of these products are sold in the six main cities within a 200 mile radius of Rotterdam. It is now necessary to allocate major resources to the setting up of full-time, professionally staffed sales offices in these cities.

4. Generation of Investment : We need about 350,000 jobs in manufacturing industry if we are to achieve full employment, that is an increase of about 75% on present levels. Taking account of replacement investment, this requires a tripling of investment in current money terms over the next decade. Foreign firms have always been welcome in Ireland and will remain so. However, the main path to expanding employment and living standards must be through the development of existing industry. No one will want to invest in a country if the industry which already exists there is not, itself, dynamic and expanding. As a result of restoring competitiveness, improved productivity and export promotion, existing industry can generate the funds which will justify a much more rapid rate of expansion.

5. Favourable Climate for Enterprise : Finally, the creation of a favourable climate for enterprise is the most important factor. Industry will not take risks unless it is convinced that it will not be penalised for doing so. During recent years, the State has increased considerably the direct taxation load on industry and has imposed much higher charges to industry for public services rendered, due primarily, to the rapid escalation in public sector wages and salaries. It seems illogical that profits retained

for reinvestment in the manufacturing sector should be taxed, while at the same time, considerable investment incentives have to be provided in attracting new industry from abroad. There would, however, be little point in removing company taxation if this form of taxation were to be replaced by higher operating taxes, such as those imposed recently.

The State must create a favourable climate for risk taking. It must also give a clear lead in stating specifically how it intends to generate and allocate resources within the economy over the next few years. The emphasis must be placed on creating an environment which will ensure that money is retained in the manufacturing sector for the creation of employment.

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