

IRISH MANAGEMENT INSTITUTE

One-Day Conference for Managers

IRISH INDUSTRY IN THE EEC

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at

Great Southern Hotel, Galway

27 MARCH, 1974

IRISH INDUSTRY IN THE EEC

My task in this paper is to present a case study on how industry in the Republic is coping with its new position within the EEC. I shall describe the current performance of Irish industry; its evolution; its methods for representation within the European Community; the issues with which it is currently concerned; and finally, its future.

At present 31% of the labour force in the Republic works in industry, 25% in agriculture, and 44% in services. This compares with an EEC average of 44% in industry, 10% in agriculture and 46% in services.

Industry has been the major growth sector of the economy of the Republic during the 1960's. Industrial employment has increased by an average of 2.5% per annum. During the same period industrial output increased by 85%, and the output of the agricultural sector by 28%. It is clear that this evolution will continue.

The development of Irish industry has occurred in three distinct phases since the early 1930's. First phase was the stimulation of home based industry behind high protective barriers from 1932 - 1957. During this phase the number of people employed in industry increased from 115,000 to 146,000 and industrial output grew by 130%.

Industrialisation was not proceeding sufficiently rapidly, and in 1957 the second phase 1957 - 1965, an industrial promotion drive was started to encourage the establishment of foreign industries backed by a scheme of incentives, the high protection remained. This phase continued until 1965. During this period industrial employment grew from 146,000 to 178,000, and industrial output by 63%

At this stage it was clear that high tariff protection could not be maintained indefinitely, and that Irish industry should prepare for eventual entry into the EEC when it would need the capacity to survive in free competition. The third phase 1965 - 1972 therefore commenced with the negotiation of the Anglo Irish Free Trade Area agreement under which the tariffs against British products would be reduced by 10% per year until they were eliminated. The drop in tariffs against products from Northern Ireland was to take place one year earlier than that on British goods. Some years earlier it had been recognised that the growth of Irish industry would have to be exported, and an incentive scheme giving tax relief on profits earned from exports for 15 years was introduced. The result of these policies was that between 1965 and 1972 industrial employment increased from 178,000 to 196,000, and industrial output increased by 47%.

The fourth phase 1973 - 1977 commenced on 1 January 1973. The Republic voted in May 1972, with 83% in favour of joining the EEC. There were clear advantages for agriculture which had traditionally sold its products to Britain, a country with a cheap food policy.

Irish industry too threw its full weight behind the campaign to join the EEC. The balance of advantage appeared to lie with entry. This appeared to offer a more prosperous local economy, a Community Regional and Social policy, access to EEC markets, and the opportunity to participate in a much greater economic and social experiment in which the smaller states had safeguards. There were risks of course. The tariff against goods from the old EEC often as high as 60% would be reduced to zero in four years. Yet industry had emerged relatively unscathed from the tariff reductions under the AIFTA. It was a chance worth taking.

The first drop of 20% in Irish customs duties against the old EEC took place on 1 April 1973. This was followed on 1 July 1973 by a further drop in tariffs under the AIFTA to an absolute level of 4% against Northern Ireland products, and 8% against British products. Competition for Irish goods on the British market should also have increased with greater competition from EEC countries. What has happened?

The following chart illustrates the performance of the Irish economy in 1972, and its estimated performance in 1973

	Growth in Output	
	1972	1973
a) GNP	3½%	7%
Industry	4.7%	10%
Agriculture	2%	8%
Exports value	21%	33%
Imports value	11%	40%

	Exports	
	1972	1973
b) Pattern of trade :		(est.)
Britain	51%	46%
Old EEC	17%	23%
North America	9%	9%
Northern Ireland	10%	10%

We appeared to make a good start in 1973. There were, however, many favourable factors and, perhaps, unique factors at work this year. The economies of all our major trading partners were expanding fast. Farm incomes rose by 34% due in part to the operation of the Common Agricultural policy in dairy products - increased money available for spending on the products of industry. The downward float of the £ almost eliminated the pressure of increased competition from EEC countries. Many of the new foreign subsidiary firms which had been established came on stream. Mining activity increased. All of these factors combined to produce a mood of business confidence in Irish industry which had not been surpassed for five years. It is clear that not all of these factors were due to entry into the EEC - nor were they all advantages.

The higher farm prices, and devaluation contributed to an exceptional increase in inflation. Prices rose by 11% in the year to mid August 1973 but the rate of increase now shows signs of moderating. Nevertheless in the choice between inflation and growth there is no doubt where the wish of industry would lie.

The share which foreign goods have of the Irish market is currently 24% and is increasing by about two percentage points per annum. This trend is likely to continue as the tariffs against continental countries drop during the transitional period. Another threat which is at least as important will be the increased competition from non EEC countries, such as the U.S. and Japan, as our high tariff barriers are reduced to come into line with the 8% common external tariff of the Community. Companies manufacturing solely for the home market are, obviously, entering a very difficult phase.

Irish industry is, therefore, growing at an unprecedented rate during its fourth phase of development. Employment has increased by 6,000 to 204,000. Our task now is to maintain and, if possible, to accelerate this momentum.

With the Yom Kippur war of October 6, came a reduction in oil deliveries, and a rapid increase in oil prices which will directly increase Irish import costs by about £100 million. During the first quarter of 1974 the shortage of oil was of much more significance than its price. The delivery position has, however, improved so that industrial production during the rest of the year is not expected to be hampered by lack of oil.

Since Christmas Irish industry was faced with a series of interconnected problems. It required sufficient oil to produce and

transport its goods; an adequate supply of materials and components to maintain continuity of production; greatly increased working capital to finance both the accelerating cost of materials and, also, to finance the additional safety stocks required when supplies are threatened and delivery dates lengthened; and, finally, it required to diversify further its markets to avoid the impact of the British recession.

The supply position on oil and raw materials has become easier. There is even some hope that many commodity prices have reached their peak. The agreement reached on farm prices for next year ensures that agricultural production will continue to grow. Unemployment figures are down 3,000 on this time last year; exports are up 35% for the last twelve months and imports are up 29%, both of which trends have held steady during February. (See Appendix I.)

The Confederation of Irish industry has, as its main task, the creation of an environment within which industry can grow both quickly and profitably, thus contributing to the balanced economic and social development of the country.

Before the AIFTA much of the effort of its predecessor, the Federation of Irish Industries, had been expended on ensuring the effectiveness of protective measures. The Confederation evolved also in parallel with industry. In 1972 it strongly supported entry into the EEC. It was recognised that many of the decisions which affect Irish industry would now emanate from Brussels. It would be almost useless to wait until industry

was presented with a fait accompli which might be detrimental. It was essential to become involved, to get information in advance, when it was only a 'gleam in the eye'; to make proposals; to participate in the consultative process; and to adapt for likely changes in advance.

Early 1972 the three representative organisations for business in the Republic

- the Confederation of Irish Industry, representing industry in trade and economic affairs
- the Federated Union of Employers representing industry in industrial relations
- the Association of Chambers of Commerce

agreed to fund jointly an Irish Business Bureau in Brussels at an annual cost of about £27,000. The Director of this Bureau commenced work in Brussels in October 1972. His task is to be the permanent representative of Irish business in Brussels; to act as contact point for the three organisations; to keep fully informed on all developments in Brussels which affect the interests of Irish industry. He is permanent Irish representative in UNICE - the umbrella organisation for the Confederations of Industry in Europe. So heavy has his work load become that he will have an assistant director within six months.

There are three main levels of industrial representation, each of which has a European counterpart, and all of which are included in the Confederation.

- a) The Confederation - representing all the strands of industry in matters of common interest e.g. taxation, regional policies, manpower policy, economic and monetary policy, industrial policy etc.
- b) The Federations - representing the interests of major sectors of industry, such as textiles, engineering, food, chemicals, clothing etc.
- c) The Associations - representing the interests of a subsector e.g. knitting, electronics, margarine manufacture.

At present the Confederation is a member of UNICE; five major Federations are members of EEC counterparts, and approximately 40 Irish industry associations are members of their European Industry Associations. Membership of an EEC organisation is irrelevant unless the Irish group participates fully in its meetings. This involves frequent visits to group meetings in Brussels or other European centres. I estimate that already Irish industry is spending over £100,000 in 1973 in industrial representation in Europe. It has done this incidentally without Government financial assistance. This is the price of obtaining one of the nine seats in European representative organisations, but it is a cost that must be incurred.

Process for Decision Making

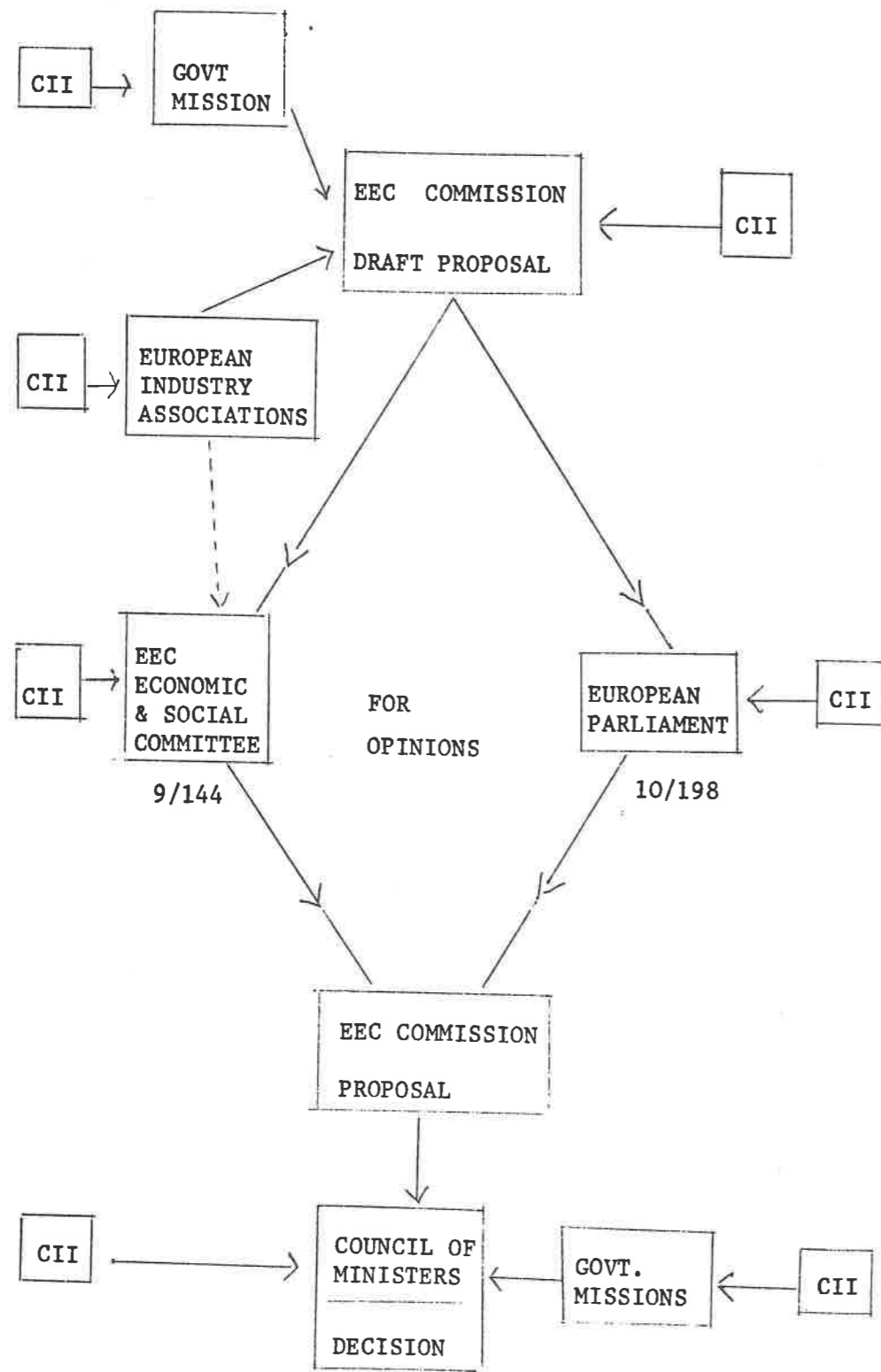
Until recently most of the efforts of Irish industry were directed towards our own Government Departments and State service agencies. During the last twelve months there has been a marked shift in emphasis from Dublin to Brussels so that to-day

approximately equal resources are devoted by the Confederation and its affiliate organisations to Dublin and Brussels representation.

The development of EEC legislation and policy follows three major steps :

1. Preparation of a draft proposal by the Commission after consultation with European Industry Associations and Government Missions. This is the crucial stage for involvement. As soon as the first document appears it is essential that the Irish industrial sector is involved both in the relevant European Industry Association discussions, and that it briefs the Government Department concerned.
2. The second stage is consultative when the draft proposal is sent to both the European Economic and Social Committee and the European Parliament for their opinions. As a result the proposal may be held up, or considerably modified. Irish industry has three representatives on the 144 man Economic and Social Committee, all of whom are members of the Confederation's European Affairs Committee, and one of whom is Director of Business Policy at the Confederation. The Republic also has 10 out of 198 members of the European Parliament.

These groups too must be briefed on the attitudes of Irish industry. A list of the proposals sent for opinion to each of these groups is published in the Confederation's fortnightly Euroletter.



3. At the final stage the modified version of the proposal is sent to the Council of Ministers for decision. It is still possible to influence the decision at this stage. This can be done through the relevant Government Minister.

To summarise therefore, the Confederation uses seven major channels of communications :

1. Direct consultations with Commission officials
2. Participation in the work of about 30 working Committees of UNICE - the Confederations of Industry in Europe - which is consulted by the Commission and Commissioners.
3. Participation in the work of about 40 specialised European Industry associations e.g. CIAA for Food, Orgalime for Engineering, Comitextil for Textiles, SIIC for Chemicals. Consulted at preliminary drafting stage.
4. Briefing Irish members of European Economic and Social Committee which is asked for its opinions on all draft proposals for new legislation.
5. Briefing Irish members of European Parliament which is also asked for its opinion on all draft proposals for new legislation.
6. Discussions with Irish Government Mission in Brussels which takes part in preliminary drafting and in final amendments.
7. Discussions with Irish Government Departments which, in turn, brief the Irish Mission and the relevant Minister prior to meetings of the Council of Ministers which decides on legislation.

Some Aspects of EEC Policy

There are many aspects of the Community's policy evolving which will have a direct bearing on Irish industry in the immediate future, which we must both contribute to and influence. I shall mention only a few.

Regional : This island on the periphery of the Community requires a rapid investment of capital in order to develop the infrastructure required for the efficient operation of industry. This investment is required particularly in roads and telephonic communication. Special incentives will be required also to develop industry in Ireland until the gap in living standards with the other countries of the Community is eliminated.

Assuming that the rate of population growth averages about 1% during the seventies, the growth each year of the Irish GNP will have to rise from an average of 3.3% during the sixties to 10% during the seventies if the Republic is to achieve parity of living standards with the European Community.

We, in the Confederation, have had a number of meetings with Commissioner Thomson to ensure that Article 2 of the Treaty of Rome is honoured in reality as well as in principle. We also want the Summit statement of October 1972 honoured that "the Heads of State agreed that a high priority should be given to the aim of correcting in the Community the structural and regional imbalances which might effect the realisation of economic and monetary union".

High rates of economic growth are most easily attainable for a given financial injection when there is unemployment, and underemployment. Investment in the regions therefore makes sound economic and social sense.

Specifically, the CII wants to see Regional Funds allocated in large measure to the areas of greatest need within the Community. It wants two thirds of the Regional Fund allocated to those regions which com-

Competition : The theory of free competition, though desirable in itself, must be modified to take account of other factors such as social and political effects, and of fair trading practices. There are many constraints to free competition due to non tariff barriers such as different standards in Merchandise Marks, weights and volumes. Similarly, different technical standards can prevent goods entering new markets. Irish industry must ensure that it has a say in the development of Community standards, and that Irish legislation is harmonised.

Dumping of manufactured goods from other Community countries could cause irreversible damage to some of our industries unless carefully monitored, and a quick reaction mechanism applied.

Similarly, while it may be argued that incentives to industry in developing areas distort competition, regional and social problems are a higher priority.

We have discussed a number of these issues with Commissioner Borchette and his staff to ensure that they are fully briefed on the position of Irish industry.

Social : The commitment of the October Summit gave the Community a human face and increased the importance of Social Affairs.

There is considerable emphasis on job enrichment, participation, development of new skills, and helping job mobility through retraining.

Over £100 million will be allocated this year by the Community for projects associated with training people in new skills. There is a great danger that Ireland will not use this fund to the limit because of lack of projects coming forward. The Confederation has arranged and will be arranging further meetings between Irish industrialists and Commission officials, both in Brussels and in Dublin, in order to help develop projects which will benefit. As a result applications under the social fund have been submitted both by the private sector at its own initiative, and by State agencies. We see scope for further action at the initiative of the private sector.

The Marriage Bureau : Mr Roger Peeters, Director of the EEC "Marriage Bureau", the Business Cooperation Centre, visited the Confederation on 19 September 1973, and held discussions with members on various aspects of the bureau's services. The bureau is, in concept, potentially one of the most valuable offices of the Community as far as Irish industry is concerned. It is designed to bring together companies in different Member States which share common interests. These interests may range from the sharing of facilities and expertise, whether in production, marketing and distribution, or technology for example, to joint ventures, and even to formal financial links and mergers. The essence of the marriage bureau is that it is aimed at helping small and medium-sized firms on a national scale, grow to the same small/medium size on a Community scale.

Already about three hundred firms from all over the EEC have applied for linkages. At our instigation approximately 60 Irish firms have sent details to Brussels. Linkages such as this help to develop a European "industrial texture".

The developemnt of trade throughout the EEC has encouraged Irish industry to develop its links with its sister Confederations in other member states. The Directors of Confederations of the Nine now meet formally at least six times per year through UNICE. A jointly sponsored CII/CTT industrial delegation had joint discussions with the Federation of Netherlands Industry at the Hague last October; another group from the Confederation visited the Danish Confederation in November. A similar group will visit Confindustria in Italy in June. The object of these missions is to develop two way trade.

INDUSTRY IN THE WEST :

Distribution of working population :

	<u>Republic</u>	<u>N.I.</u>	<u>West</u>	<u>U.K.</u>	<u>EEC</u>
Agriculture	25%	9%	52%	3%	10%
Industry	31%	45%	16%	46%	44%
Services	44%	46%	32%	51%	46%

Net output per capita :

	<u>1971</u>
West Region (est.)	£1,958
Republic	£2,200

Main Industrial Sectors :

	<u>West</u>	<u>Republic</u>
1. Food	24% +	19% +
2. Textiles	16% -	12% +
3. Clothing & Footwear	15% -	14% -
4. Wood & Furniture	12% +	6% +
5. Engineering	10% +	19% +

Fastest growing sectors in last 10 years :

Chemicals	220
Engineering	160
Textiles	193
Food	146
Wood & Furniture	140

CONCLUSION :

Irish industry strongly supported the Republic's entry into the EEC. It has moved from the protectionist environment of the fifties to the free trade environment of the seventies successfully. It is the major contributor to the development of the Irish economy. Nevertheless, there is little reason for complacency. Our material standard of living is the lowest in the Community, and our unemployment the highest. Tariffs are still high against other EEC countries, except the U.K. and against "third countries". These will be eliminated, or in the case of "third countries" reduced to the level of the Common External Tariff of 8%, in four more steps by 1977.

The growth of industry must be accelerated even further from the present high level of 10% to about 14% if sufficient additional employment is to be provided to cope with the natural growth in population, the net immigration which has occurred in the last two years, the drift from agriculture and to eliminate significant unemployment.

The uncertainty of the last few months has, however, reduced forecasts for industrial growth to 5% for 1974. The brighter outlook now apparent for raw material, oil supplies, for growth in the old EEC countries, and for agricultural prices, should all contribute to an improvement in this prospect. The prospects for exports are bright; our main difficulty will be to maintain the volume of home demand during the rest of this year. This is the challenge facing the Minister for Finance in his budget next week.

NOTES ON CURRENT INDUSTRIAL POSITION : 26 MARCH 19741973

Retail sales	18%	16%	Dec. 1973
Retail volume	7%	3%	Dec. 1973
Export volume	+ 35% (last 12 mths)	35%	Feb. 1974
Import value	+ 29% (" " ")	29%	Feb. 1974
Unemployment	70,984 (8th March '74)	Down 3,000 in 12 months	

Manufacturing production :

1st Quarter 1973	14.1
2nd	12.8
3rd	11.1

Seasonally adjusted, production has remained constant during 1973.

% Exports to Britain	January/June 1972	54%
	January/June 1973	47%

Business confidence at 1 January 1974

Production	+ 60	lowest since July 1972
Home sales	+ 48	" " April 1972
Exports	+ 55	steady optimism since July 1973
Employment	- 6	lowest since April 1972

Stock of finished products adequate

Raw material stock insufficient

Investment intentions highest (with exception October 1973) since April 1969, when they were the same.

Expected increase in industrial output during 1974 = 5% unless changed policies.

Main problems now :

1. Raw material availability and prices - availability of steel and chemicals, food additives.
2. Sluggish home market (3% Dec.)
3. Expensive wage agreement - almost 20% : competitiveness
4. Effects of British 3-day week & budget

Industry now needs expansionary policies :

1. To maintain rate of growth in employment achieved in 1973
2. To maintain rate of growth in output necessary to ensure minimum growth in unit costs

Required :

1. Growth in home demand to be maintained at same level as last year i.e. about 7%
2. Higher investment. Investment intentions of industry remain very high, but high raw material prices absorbing capital.

Action required : to reduce company taxation
to give relief for transfer
to capital reserves
tax relief for profits from
new projects

Also commitment to growth itself will stimulate confidence and higher investment. Want capital formation increased significantly by public and private sector. Investment now directly influences future growth rate.

3. Want growth budget so that industry can repeat last year's performance

Wages up 20% last year, but productivity up only 8% - with low growth position would be worse.

Industrial Capacity :

1. Output has remained stagnant for one year - about 20% - 24%. Could not produce more from existing equipment.

In October 1973, just before a 6% growth in production, 20% said they could not produce more from existing equipment, compared to 16% in July 1973. Also stocks of finished goods now adequate.

New factories coming on stream, and benefits of investment in last year not yet utilised; unemployment beginning to drop.

2. The second major constraint in January was raw material shortage. About 20% of firms affected. Situation still very difficult in steel, chemicals, and food additives. Generally materials are available at a price. Some expectation that commodity prices will weaken within the next few months due to slower growth in major economies. Oil supply expected to be adequate for needs.

TABLE VI

NUMBER OF ESTABLISHMENTS IN EACH INDUSTRY,
CLASSIFIED ACCORDING TO AVERAGE NUMBER OF PERSONS
ENGAGED IN 1968 AND 1963
AND THE % CHANGE

SECTOR		Under 5		5-9	10-14	15-19	20-29	30-49	50-99	100-199	200-499	500+	TOTAL
		1968	1963	1968	1963	1968	1963	1968	1963	1968	1963	1968	
Food	1968	133	206	133	73	97	86	73	50	32	11	894	
	1963	-51	-16	+17	+16	+12	+39	+52	+43	+28	+22	961	
Drink & Tobacco	1968	11	21	22	17	12	14	9	6	4	4	120	
	1963	-63	-34	+5	+55	-14	+40	+29	-25	+300	+33	137	
Textiles	1968	11	24	15	13	22	33	37	35	25	9	224	
	1963	-31	+118	-25	---	+5	+43	-5	+9	+19	+50	202	
Clothing & Footwear	1968	9	29	25	16	55	78	68	34	24	2	340	
	1963	-59	-31	-19	-27	-3	+20	+6	+13	+60	---	359	
Wood & Furniture	1968	66	61	37	27	34	42	26	11	2	---	306	
	1963	-20	-5	-5	+8	-28	+62	+4	+57	+100	---	316	
Paper & Printing	1968	32	36	33	21	44	38	29	18	10	5	266	
	1963	-14	+20	+6	-5	+42	+36	+45	+13	+25	+25	227	
Cement & Cement Products	1968	17	20	17	10	20	27	15	8	7	2	143	
	1963	-35	-20	-19	+11	---	+69	+9	+14	+133	+100	136	
Glass, Clay & Clay Products	1968	25	19	19	11	15	15	12	10	3	5	134	
	1963	-32	-17	+46	+120	+88	+36	+100	+25	-50	+150	119	
Metals & Engineering	1968	47	65	41	34	41	53	57	35	27	12	412	
	1963	-32	-18	+8	+48	+11	+6	+50	+37	+29	+20	392	
Other Manufacturing	1968	35	38	24	19	28	39	27	16	8	1	235	
	1963	-48	+3	---	+12	---	+63	+50	+100	+100	---	228	

TABLE V

BREAKDOWN BY SIZE (AVERAGE NUMBERS EMPLOYED) AND REGION OF ESTABLISHMENTS IN TRANS-
PORTABLE GOODS INDUSTRIES IN 1968.

Region	0-4	5-9	10-14	15-19	20-29	30-49	50-99	100-199	200-499	500+	TOTAL
East	143	202	150	117	185	220	168	105	70	30	1390
North East	28	27	20	11	24	29	27	23	10	5	204
South East	50	64	49	29	37	40	26	21	17	3	336
West	25	36	21	9	18	19	22	10	5	0	165
South West	79	88	57	44	44	51	48	37	23	7	478
West	35	62	35	23	20	32	27	13	16	4	267
North West	14	31	25	11	25	21	26	9	4	0	166
Midlands	7	27	17	13	20	21	17	10	2	3	147
Non contributable	0	0	0	0	0	0	0	0	0	1	1
TOTAL	391	537	374	257	373	433	361	228	147	53	3154

TABLE VII

REGIONAL ANALYSIS

Sector	East	North East	South East	West	South West	Mid West	North West	Midlands
<i>% Number of Firms Classified by Region</i>								
Food	20	6	17	6	23	15	8	5
Drink & Tobacco	21	7	22	5	19	9	6	11
Textiles	42	5	5	7	19	8	8	6
Clothing & Foot- wear	70	8	2	4	7	3	—	6
Wood, Furniture & Brushes	45	10	10	8	13	6	3	5
Paper & Printing	62	4	8	3	10	4	4	5
Chemicals	74	4	6	3	8	3	—	2
Glass, Clay & Cement	43	11	9	7	11	7	5	7
Metals & Engineering	59	4	8	3	13	7	3	3
<i>% Gross Output Classified by Region</i>								
Food	32	8	15	3	22	13	4	3
Drink & Tobacco	57	32	3	1	4	0	0	3
Textiles	34	6	5	5	25	10	5	10
Clothing & Foot- wear	52	18	2	4	10	7	—	7
Wood, Furniture & Brushes	47	7	10	3	10	10	9	4
Paper & Printing	81	1	6	1	6	3	1	1
Chemicals	71	7	7	2	11	2	—	0
Glass, Clay & Cement	44	17	6	2	10	17	1	3
Metals & Engineering	53	10	6	2	18	8	2	1