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PRESS RELEASE

Paper by Liam Connellan, Director General, Confederation of Irish Industry, at meeting of Institute of Chartered Accountants in Ireland, Smithwicks Brewery Training Centre, Kilkenny, on Wednesday, 4th March 1987 at 6.30p.m.

INDUSTRY - A RESOURCE FOR EXPANSION

It seems appropriate in the aftermath of the passing of the Single European Act, that an assessment should be made of where Irish industry fits in the European Community at this time.

Two years ago the European Round Table of Industrialists published a study called "Missing Links" in which proposals were made for major infrastructural projects which could help to integrate Western Europe more fully. These included the development of the Channel Tunnel; the Mont Blanc Tunnel under the Alps, and a four lane motorway bridge from Oslo to Hamburg. The slide shows the cover of the Report. You will notice that the island of Ireland is a "missing link".

There is little point in bemoaning this omission. Instead I would suggest that we should use the opportunity to identify clearly where we fit into the European scheme of things, and the changes which are necessary to ensure that we play our full role in a European Community of 320 million people.

In this paper I hope to demonstrate that although the Republic of Ireland accounts for a tiny percentage of the population of the European Community it is already playing a significant role in its economic life, and that this role can be expanded sharply.

Ireland's GDP per employee is about 71% of the Community average. This ratio has improved from 61% in 1973. The employment performance of the Irish economy has been somewhat better than the European average over the last fourteen years. Our very high unemployment rate is due to the more rapid growth of our population and labour force than that of most other European countries.

THE SPECIALISATION OF INDUSTRY

Ireland supplies only 1% of European demand for industrial products. However, in particular sectors of industry our contribution is much greater. For example, Ireland supplies 5% of Europe's milk and 7% of the beef market. Jefferson Smurfit is the largest packaging organisation in the world. Waterford Glass is the largest crystal and china firm in the world. GPA is the world market leader in aircraft leasing, and is expected to own a fleet as large as the present British Airways fleet within three years; an Irish company is the largest meat operator in Europe; an Irish firm is the largest domestic electric appliance manufacturer in these islands. Ireland also has the largest European manufacturer of industrial diamonds, one of the largest bauxite processing plants in Europe and, of course, one of the largest breweries.

For the first time in our history five Irish public companies are ranked in the top 500 in Europe. A number of other Irish companies would probably also qualify for this list if they were publicly quoted. The number of Irish companies ranked in the top 500 in Europe compares favourably with the performance of some other small European countries.

In line with the evolution 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 trends of Irish export diversification must pay considerable attention to the purchasing power of the different member states of the Community.

While many private sector companies have demonstrated a capacity to expand outwards and buy market share in other countries, there has also been considerable dynamism in the semi-State sector. Many of these companies have been particularly active in developing a demand for specialised services abroad. Aer Lingus has many valuable contracts for the servicing and maintenance of aircraft; it has also developed considerable expertise in exporting computer software, in hotel management and hospital management overseas and in providing professional manpower abroad. The Electricity Supply Board has valuable consultancy and training contracts in some 18 countries. A subsidiary of the National Development Corporation has a significant hospital management contract in Saudia Arabia.

SEMI STATE EXPORT SERVICES

In the construction industry a large number of Irish firms have subsidiaries in Britain and others have expanded to Continental Europe, the United States, the Middle East and Africa.

In the financial services sector, Irish-owned firms have subsidiaries in Britain, the United States, Australia and the Far East.

All of these developments combine to demonstrate the rapid internationalisation and the growing strength of the Irish business sector. I estimate that there are now about 100 Irish companies with operations overseas. The expansion of Irish business in this way has many positive results. Diversification enables companies to survive and grow when it might not otherwise be possible. Improved profitability increases the market capitalisation of companies and their capacity to expand further. The image of Ireland as a modern and sophisticated industrial economy is enhanced. The Irish parent company can charge out management services, and supply components to its subsidiaries abroad. Finally, investment overseas earns valuable dividends for Irish companies. It develops their strength and their capacity to increase investment at the "control centre" of their operations in this country.

Foreign operations also provide opportunities for many Irish people to work abroad for Irish-owned firms in supplying managerial and technical expertise. They enable Irish companies to compare the performance of their local plants with those in other countries, and to continually improve performance in all subsidiaries.

The Irish business sector has shown remarkable enterprise and dynamism in recent years in expanding internationally. The development of exports, and the direct purchase of overseas companies, provides access to new markets, technologies, and sources of finance. Our major semi-State companies have developed a very high level of technical competence which is widely welcomed in a large number of countries. Irish engineers, consultants, teachers and nurses, are widely welcomed. Operations by Irish companies abroad provide a welcome opportunity to earn foreign revenue and at the same time offer foreign experience job opportunities for Irish people.

Let us recognise too the unique cultural, ethnic and economic links which Ireland has with the United States. Some 40 million Americans have an Irish ancestor. A very high proportion of the leaders of American corporations are of Irish extraction. Even today many Irish-born executives are in leading positions in American coporations. It is not surprising that many Irish firms expand their operations in the United States. Nor is it surprising that this small island which accounts for only 1% of Europe's population has attracted 10% of American manufacturing investment in Europe. Hundreds of American corporations have responded favourably to the excellent marketing efforts of the IDA. Ireland is unique in Europe in having such close links with the United States out of all proportion to our size. We must build on the many positive aspects of our shared heritage in order to further develop trade, investment, technology transfer and marketing opportunities.

INWARD INVESTMENT

There are 850 overseas firms with manufacturing establishments in the Republic employing about 80,000 people. The majority of these companies are from outside the EEC and have chosen Ireland as their entry point for the European market. Some of these companies conduct their European marketing activities from Ireland. Others have developed a strong research and development capability in this country which services the international group.

STRUCTURAL CHANGE

Since 1958 industrial output has expanded by over 5% per annum. Over the last two years this growth rate has slackened to about 3%, but is now showing signs of recovery. I believe that Ireland has the potential to expand industrial output by 7% per annum over the next decade in line with the targets of the 1984 White Paper. However, the achievement of a faster industrial growth target will require that the highest priority is given to stimulating faster growth in the output of internationally traded goods and services as the primary means of creating additional employment throughout the economy.

The performance of industry is strongly influenced by international developments. Irish industry exports approximately two-thirds of its output. Experience over the last five years shows that there is a close relationship between Irish industrial growth and the expansion of industrial output in the United States, and Japan in particular.

This relationship is due to the fact that more than one-third of Irish industrial output is produced by American or Japanese-owned companies and also that these two ecomonies account for more than half the output of the world market economies.

There are cogent reasons why Ireland has the potential to achieve a faster growth in manufacturing output over the next decade. The structure of industry in Ireland has changed dramatically in recent years. Manufacturing industry can be sub-divided into three broad categories :

1. New technology firms generally comprising firms in electrical, electronics, chemicals and pharmaceuticals;

2. Food, drink and tobacco sector based on agricultural products; and

3. The traditional sectors, comprising industries such as textiles, clothing, footwear, furniture, packaging and building materials.

Since 1973 the growth performance of these sectors has varied widely. New technology sectors have expanded output by 15% per annum, the food, drink and tobacco sector by 3% per annum, and the traditional sectors have suffered a decline in output of 2% per annum.

The strong growth performance of new technology firms has been influenced heavily by the introduction of new firms from abroad. There are now hundreds of electronics and pharmaceutical firms throughout the country. Due to international factors the growth in output of these sectors in Ireland slowed down over the last two years, but has picked up significantly over the last six months.

It is worth noting that despite the second bad harvest in succession in 1986 the output performance of the food processing sector at 5% was above its long run trend.

The decline in output of traditional industries has been due to the elimination of tariff protection; the impact of recession has reduced demand for many products; and more recently the significant strengthening of our currency. Reflecting the sharp decline in sterling last year the output of these sectors fell by about 4% following a rise of 1% in 1985.

Since 1979 the structure of industry has changed significantly. New technology sector now accounts for 45% of output while traditional sectors account for less than one third. Since a much higher proportion of industrial output is now engaged in the fast growing new technology sector, there should be a greater possibility of sustaining a stronger growth in manufacturing industry than in the past, but this expansion will be built on the allocation of greater resources to the application of technology and the development of exports.

There is also considerable scope for the further development of industries based on natural resources such as forestry, fishery, mining and hydrocarbons.

The development of afforestation offers particular potential for Ireland. The climate is more favourable for growing trees than in any other part of Northern Europe. The European Community is the world's biggest net importer of wood products, and imports approximately 60% of its total wood requirements. Diversification into forest products offers possibilities for farmers who may wish to switch from meat and milk production, and also for the development of our cut-away bogs.

FORESTRY

About 10% of the Irish workforce is currently engaged in the provision of services which are currently or potentially internationally traded. These include, people working in tourism which accounts for about 4% of national output and many of those engaged in financial services such as banking and insurance, computer services, consultancy services, and the provision of health and technical services overseas. These services are likely to expand at least as fast as the manufacturing sector, and in many cases have the potential to expand much faster. Irish firms have advantages in the quality of Irish professional staff, the fact that we speak the major international language of commerce, and that we come from a small country without a colonial tradition. The availablility of a sophisticated telecommunications system, and good transport connections to most parts of the world improve the suitability of Ireland as a base for the provision of such services. The more rapid development of the financial services industry would have a major impact on the perception of Ireland as a source of high level expertise.

INTERNATIONAL SERVICES

IMPORTANCE OF THE RETAIL SECTOR

It is also worth noting that the retail and distribution sector of the economy is making a significant contribution to raising living standards, to changing perceptions of quality and service; and to creating an environment of healthy competition. Some of our major retail outlets provide an excellent testing ground for new products, which if they are successful on the Irish market can be sold in other branches of the retail chain overseas. Other major distribution companies have significant export marketing activities. The outward orientation of Irish business is clearly evident, not only in the quality and service provided on the home market, but also as potential distribution channels for Irish products abroad.

RETAIL SECTOR

In summary it is not surprising that in the 1986 World Competitiveness Report Ireland is ranked third highest among 22 industrialised countries in relation to outward orientation. Outward orientation measures the presence of national companies in foreign markets as

OUTWARD ~~EXOR~~ ORIENTATION

exporters and investors, and the receptiveness of the economy to imports and inward investment. Ireland is ranked after Japan and the Netherlands and ahead of countries such as Germany, Switzerland, and Denmark. While recognising our weaknesses let us also recognise that we do have strengths.

EXPORTS

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 strong reliance of industry on export markets means that the balance of advantage for industry lies in having unhindered access to all the markets of the European Community.

In recent years there has been a dramatic change in the nature of our exports. In 1986 the top five exports were computer equipment; chemicals; meat; dairy products; and electrical machinery. These five products accounted for almost half of all Irish exports. However, they had very different growth rates. The new technology exports of computers and chemicals are expanding much more rapidly than food exports. Ireland is a significant net exporter of new technology products.

When we joined the European Community in 1973, the United Kingdom accounted for 55% of our total exports and Continental EEC countries for 21%. Last year we exported significantly more to Continental EEC countries (38%) than to the United Kingdom (34%). This diversification has occurred because of the rapid growth in exports to the Continent. Despite the fall in their share of our total exports, the volume of Irish exports to the United Kingdom in 1985 was much higher than in 1973.

This change has occurred because prior to 1973 Irish agricultural exports were denied access to Continental markets, and because new foreign-owned industries established in Ireland sell far more to the Continent where purchasing power is much greater than in Britain.

Let us now examine more closely the share of our exports taken by different EEC countries. Almost three-quarters of all Irish exports are sold to other European countries. Looked at from the point of view of purchases of Irish products per capita, the European market can be divided into three distinct bands.

Inner Band

The United Kindom and Benelux countries which purchase between £40 and £50 per annum of Irish products per capita and account for 44% of all Irish exports.

Middle Band

France, Germany, Switzerland, Denmark, and Scandinavia, which account for 24% of Irish exports and purchased between £15 and £26 per capita of Irish products in 1985, and

Outer Band

The peripheral countries of Portugal, Spain, Italy, Greece, and Finland, which accounted for 6% of Irish exports in 1985 and purchased between £3 and £11 per capita.

Examination of these developments suggests the establishment of an export front pushing into the densely populated and affluent areas of Northern Germany and Northern France.

The importance of the German and French markets is underlined by the fact that Germany and France have each got greater purchasing power than the United Kingdom. Ireland is already exporting as much to the Benelux countries, France and Germany as to the United Kingdom. It seems likely that by 1990 our combined exports to France and Germany will exceed those to the United Kingdom. It is possible that within a decade, Ireland will be selling as much to Germany as to Britain.

The main reasons for this diversification is that Ireland now has free access for its food products to the Continental markets; and that Germany and France have each got a greater purchasing power than Britain. Thus when new industries are set up in Ireland to supply the European market, a much higher proportion of their output will normally be sold in Germany and France than in the United Kingdom. This changing pattern of our trade raises major issues relating to the development of the transport infrastructure and our attitudes to learning modern Continental languages.

AIR TRANSPORT

The attached map shows the proximity from Dublin by scheduled flight to a number of European locations. The frequency of these flights and the time taken is of crucial importance for business. Thus Dublin is within one hour of London and within two hours of Dusseldorf, Paris, Brussels and Copenhagen, and four hours of Vienna and Rome. Each day about 70 flights leave Irish airports, and each year over four million people use our airports.

AIR TRANSPORT

Two-thirds of our exports are sold to countries within two hours by scheduled flight, and only 7% to those centres between two and four hours flying time.

Each day also about 10 ships leave Irish ports for foreign destinations. The time taken to transport goods from Ireland to Britain and the Continent can be of critical importance in obtaining business. Little can be done to reduce the time for sea journies. However, significant time savings can be achieved by reducing the documentation and administration requirements at ports. Every hour taken off the time to deliver goods reduces the perception of remoteness, and increases the competitiveness of Irish products.

SEA TRANSPORT

Our road system must be developed as an integral part of the European road network. Two roads in Ireland, that from Larne to Rosslare, and from Cork to Rosslare, are designated as Euroroutes. A top class national primary route system can be a massive stimulus to economic development. Remember the four lane motorway proposed from Oslo to Hamburg in the European Round Table document "Missing Links". The impact of a similar motorway linking Limerick, Cork, Dublin and Belfast, with a spur to Rosslare, would create more favourable conditions for the development of the traded goods sectors. It is not sufficient to prepare road plans based upon reducing costs of existing traffic. An assessment must also be made of the opportunities lost because of the cost and time required to transport goods from peripheral locations. For example, a manufacturing firm in Limerick has recently estimated that 25% of the cost of transporting a container from Limerick to Germany was incurred on the section of the route from Limerick to the port of Waterford.

ROAD TRANSPORT

EDUCATION

Manufacturing industry has been increasing its share of new third level recruitment steadily in recent years. Total third level recruitment increased in 1985 by almost 7% exceeding 1,000 for the first time. The greatest demand by industry was for engineering graduates (41%), science graduates (29%) and business studies graduates (22%).

It is a cliche to state that one of our greatest assets is our well-qualified young people. We are the young Europeans. Almost 30% of the 18 to 22 age group is now in third level education. The quality of our young engineers, scientists and business studies graduates is very high. They have little difficulty in obtaining employment in major European companies from Stockholm to Eindhoven to Munich where they gain invaluable experience. Many of them have skills which are in very short supply in the Continent. It is essential that we in the Irish business sector comprising manufacturing or traded services, and export tourism, should find means to harness this invaluable resource for the development of the Irish economy.

We all recognise that Ireland has weaknesses due to its peripheral location and small population. We should see ourselves both as an integral part of the European Community, and as a crossroads between the United States and Japan and the European Community. We already share with Belgium and the Netherlands many of the characteristics of an entrepot nation.

CONCLUSION

There are many sectors of the Irish economy which offer considerable scope to maintain or develop a significant share of the European market. I have sought to describe some of these. While some have advantages arising from natural attributes such as the climatic conditions for the production of beef, dairy products, forestry, or the availability of fishing grounds, many others are based on less tangible advantages such as Irish enterprise, or inward investment arising from marketing a complex mix of factors. The development of companies which are in a position of world leadership in several areas owes most to the enterprise of Irish people working together with vision, and confidence to build successful organisations. I hope that their example will underline the enormous strength which this country possesses in its well-qualified, enterprising and enthusiastic young people who have the capacity to be marketeers, technologists, and above all people of enterprise. They are both our strength and our opportunity.