



PRESS RELEASE

The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at Commerce and Economic Society, College of Commerce, Rathmines, Dublin, at 8 p.m. on 9 March 1978

CLOUDS ON THE INDUSTRIAL HORIZON

Since the beginning of this decade, industrial output and employment in Ireland has grown faster than in any other EEC Member State. This pattern was maintained in 1977 and should continue through 1978. There are signs that employment in manufacturing industry may now be growing at a rate of 10,000 per annum, and that the rate of growth in manufacturing output is beginning to pick up.. A certain portion of this growth is due to the additional demand created in the economy through increased Government expenditure. It is vitally important that having moved on to faster growth rates in industrial output and employment, this trend should not only be maintained, but accelerated. I hope that this will be so but would like to point to a number of clouds on the horizon which should be recognised so that remedial action can be taken.

I would like to list five factors, each of which is having a constraining effect on the rate of growth in industrial output and employment.

1. A Slow Rate of Growth in International Trade

It is now estimated that the growth in international trade in 1978 may be as low as 4%. Since the volume of Irish exports must grow by over 20% per annum in order to sustain an industrial growth rate approaching the 13% target of the Green Paper, this means that Ireland must increase its share of international trade by 15% per annum. This can only be achieved by more competitive production and marketing than that which can be achieved by other countries, particularly the member states of the European Community. When the growth rate in international trade diminishes, competition intensifies as established industries in every country fight to maintain output and employment.

2. Labour Cost Increases

Since the beginning of this decade, hourly labour costs in Irish industry have changed from 85% of average levels in Britain to being on par. Since this hourly labour cost gap was closing simultaneously with the abolition of tariff barriers, the combination of these two factors contributed to heavy job losses in traditional industries. It now appears that even if the proposed National Pay Agreement is accepted, Irish hourly labour costs will increase at least as fast as those in Britain during 1978, but considerably faster than in our other major trading partners, such as Germany, France, Belgium, the Netherlands and the United States. Industry will, therefore, be faced with the problem of obtaining a greater share of international trade during a period when its hourly labour costs will be rising more rapidly than those of its main trading partners.

3. Strengthening of Sterling

A further complication has been introduced by the considerable strengthening of sterling against many major currencies during recent months. For example, over the last eight months, the pound has appreciated by 12% against the U.S. dollar; and 8% against the French franc; 8% against the Italian lira; and has depreciated 3% against the Deutschmark. This strengthening of the pound sterling and the Irish punt has made our imports cheaper and our exports dearer. In the short run, this means lower priced imported products in our shops and, therefore, an improvement in living standards. However, unfortunately, it also means that Irish products have become relatively more expensive on the home and export markets. Thus, not only is the Irish rate of labour costs increase faster than in countries such as the United States, France, Belgium and the Netherlands, but industrialists must face the added disadvantage of currency appreciation. It is important that the fact should be recognised that a small and open economy which exports almost 50% of its national output cannot escape the implications of these movements.

4. Trade Distortions

During 1977, Irish industry suffered considerably from the effects of the counterredundancy temporary employment subsidy in the United Kingdom. The Confederation welcomed the measures introduced by the Government to counteract this subsidy in the clothing, footwear and textiles industries for as long as the U.K. subsidy remains. This measure had seriously distorted trade in these products, between Britain and Ireland.

I now wish to refer to another distortion of trade. For some time there has been a considerable variation between the exchange rate of sterling and the Green currency reference rate used in Britain for agricultural products. On the

other hand, the Irish Green currency rate is approximately in line with the exchange rate of the pound. Trade in primary agricultural products and those which have gone through relatively simple processing are not affected by these divergent decisions, since a system of compensating taxes and subsidies, equalises competition in these products.

However, this system of compensating taxes and subsidies, Monetary Compensatory Amounts, does not operate for many processed food products. As a result, British manufacturers of canned and processed meat, for example, can purchase their raw materials, often of Irish origin, up to 25% 30% cheaper than their Irish competitors, and then export freely into Ireland without any adjustment to take account of the lower raw material prices in Britain. On the other hand, Irish manufacturers of highly processed meat can neither compete effectively on the British nor Irish markets.

In this way, Irish meat processors are prevented from developing downstream processing operations. Yet it is recognised fully that further processing of basic agricultural products should be a logical development. This anomaly in the Common Agricultural Policy is contributing directly to the lost processing opportunities caused by the very high level of live animal exports.

5. Competition for Mobile International Industry

In recent years, this country has depended for about 5% of its annual industrial growth and between 4,000 and 6,000 new jobs on plants commencing production in that year.

The average unemployment rate in the Community at 6% is at the highest level for decades. Every country is intensifying its efforts to attract mobile investment in order to increase output and employment.

It is essential that our package of industrial incentives is sufficiently attractive to enhance the contribution made by new firms annually.

Conclusion

These five factors of, slow growth of international trade; high hourly labour costs increases; the strengthening of sterling; trade distortions; and intense competition for mobile investment are obstacles which industry in Ireland must overcome in order to achieve the growth rate necessary.

At present, industrial output and employment are expanding at a healthy rate. It would be foolhardy to ignore the impact of

these adverse factors on our economy. Every Member State in the Community is trying to expand industrial output. The competition faced by Irish manufacturers has never been so intense. At the moment, Irish industry is moving strongly against the trend in the rest of the Community. It will require a massive effort by everyone involved in industry to sustain and improve the current growth rate.

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