

2nd Draft

4

Proposal to establish an Industrial Development Trust of Ireland

Background to Export Development

The need to expand exports as a means of achieving economic growth is now generally accepted. To achieve economic to full employment the recent Green Paper indicates that industrial output over the next 3 years must grow by ~~8%~~^{15%} per annum. Because of the small scale of the domestic market in Ireland this scale of growth can only be achieved by a high level of export growth period. Furthermore, it is clear that a major portion of this growth in exports must come from the manufacturing sector.

The Structure of Exports

In the period January to October 1976 total exports reached £1,500 million which was broken down between

- | | | |
|-----------------------------|---|---|
| (a) Food and Live Animals | ? | % |
| (b) Raw Materials and Fuels | ? | % |
| (c) Manufactured Goods | ? | % |

Apart from Agriculture volume of growth in the last year has come in the main from exports through foreign owned companies in chemical engineering sectors particularly. There is a need therefore to assist Irish companies with products which are now, for the most part, sold in the home market or in the UK which could be adopted to suit tastes and market requirements in other markets particularly within the old EEC. To achieve export growth targets there is also a need to stimulate exports of products which are now confined to the home market and which have potential in the market particularly outside the UK. It is clear that the limited growth in the UK market is causing a problem for companies largely dependent on this market for main export activity.

There are, therefore, problems caused by the small scale of industry in Ireland which hinder export development. These would include:

- B
- | |
|--|
| (i) A lack of finance for market and product development |
|--|

- ii. Insufficient marketing expertise
- iii. Non availability of contacts and/or distribution networks in markets particularly in Europe
- iv. Unsuitability of products for limited technology and know how
- v. Limited number of executives with a European language.

At present less than 30% of Irish exports are sold in the hard currency market of Europe. The proportion of sales from indigenous manufacturing industry including food processing is much lower. The Confederation, therefore, believes that the formation of an industrial development trust of Ireland would assist in achieving these objectives of export growth.

Proposal for Industrial Development Trust

This proposal has been formulated in response to the measures to stimulate economic growth which was put forward in Green Paper , Economic and Social Development 1976 - 1980. The proposal in the Green Paper was as follows:

"A generally welcoming environment for enterprise, including the establishment of a private investment trust or development bank, through which new enterprise could be promoted with substantial Irish private participation. The State would contribute to this trust on a scale equivalent to the grants payable under existing IDA schemes."

Extract from speech by Chief Executive, CTT on 25 November 1976

"Irish industry in general invests far too little time in finding out why and the wherefore, the how much and how many, of market and consumer behaviour and needs. Last year only 35 firms sought the available grants from the Department of Industry & Commerce and CTT towards the undertaking of formal market research projects - 35 firms! From this base of information - how are we to get the level of product development and marketing initiative which must be our stock in trade and from which will stem our export sales achievements of 1978 and beyond - for we are not in the price cutting game!"

The Confederation proposes the formation of an Industrial Development Trust of Ireland which would have the following objectives ~~which would have the following objectives:~~

1. To stimulate and finance the export marketing of the products of Irish industry.
2. To allocate and finance product development contracts through a mix of loans, equity and commission for subsequent sales.
3. To provide, or arrange for the provision of, insurance in support of export marketing.
4. To organise and finance the purchase of raw materials for industry.

Within this general context we see the functions of the trust as being:

1. Providing a marketing and distribution service for firms.
2. Providing finance for export marketing.
3. Providing finance/investment for risk ventures in relation to new product development.

It is envisaged that the Trust would use the Irish National Trading Company as the trading arm. However, it is envisaged that for markets in which the INTC is not or cannot offer a marketing service that the trust would provide this type of service for Irish export firms.

Finance of Export Marketing

The problems associated with initial export marketing including finance for research, product development, distribution, credit financing and insurance would also be provided by the Industrial Development Trust as a major part of activities related to exporting.

Finance and Investment for Risk Ventures/Product Development

It is clear that adaptation of existing products to make them suitable for new market areas and innovation in development of new products not now being made in Ireland by Irish industry would be an essential part of the overall programme on export development. It is envisaged therefore that part of funds and operation of the trust would concentrate on this aspect of

international trading.

Membership of the Trust

Membership of the Trust would be open to all firms having their headquarters in Ireland. The Board of Trustees would be the members, for the time being, of the National Executive of the Confederation. The formation of the Trust would be consistent with Article 3(c) of the Memorandum of Association of the Confederation which states

"To encourage cooperation in Irish industry and promote effective organisation to achieve common aims and to provide facilities and services to these ends"

Funding

The target set-up capital of the Trust should be £5 million. Investment in the Trust should be an allowable expense for tax purposes. It is proposed that the State should contribute to this Trust at the rate of 35% i.e. a scale equivalent to the grants payable under existing IDA schemes.

Investment should come from three sources:

- a) Service firms: e.g banks, insurance companies, etc. It is assumed that annual sales of the trading company would develop according to the following pattern:

Year 1 : 5 million	Year 4 : 70 million
Year 2 : 15 million	Year 5 : 100 million
Year 3 : 40 million	

The sales which totalled £240 million would have a nett present value of £117 million or 2½% of GNP.

It is assumed that the profits of service firms would increase at least as fast as the growth in economic activity.

It is suggested that service firms should invest 50% of this profit growth in the industrial trust i.e. one and one-quarter percent of 1976 gross profits. This would imply an investment of approximately £1 million from service firms.

- b) Manufacturing firms: It is assumed that 75% of sales would come from members of the Trust. that they would be prepared to invest a sum of money equal to the commission which would be payable on the first three year's sales i.e. 75% of 60 million equals 45 million multiplied by 5% equals 2.25 million. Firms using the Trust would be allowed to reduce the commission charges payable to the trading company by an amount up to 30% of their investment in the Trust each year.
- c) State contributions: The remaining 1.75 million representing 35% of the required investment would be subscribed by the State as a grant-in-aid.

$$\begin{aligned}
 & 75\% \times £60m. \\
 & = £45 \times 5\% \\
 & = £2.25.
 \end{aligned}$$

$$\begin{array}{r}
 4 \quad 2 \\
 - \quad 50,000 \\
 \times \quad 30,000 \\
 \hline
 £20000.
 \end{array}$$