PRESS RELEASE

Address by Liam Connellan, Director General, Confederation of Irish Industry at European Society Seminar, University of Limerick, Friday, 21st February 1992 at 8.00p.m.

NEED TO DOUBLE THE RATE OF GROWTH OF MANUFACTURING INVESTMENT TO CREATE 35,000 NET NEW JOBS ANNUALLY IN THE BUSINESS SECTORS

CII WELCOMES JOB TRAINING SCHEME

The Confederation strongly supports the broad thrust of the Culliton Report to create more competitive conditions for industry. The Report stresses that industrial policy is not just a question of the consideration of grants and incentives and the activities of State Agencies, but also must take into account the general taxation environment for individuals as well as companies, the quality of physical infrastructure, the quality and relevance of education and training. In the area of taxation, the Report recommends a fundamental reform of the tax system on a phased basis.

TAXATION

(a) Personal Taxation

Apart from the measures suggested in the Report which I support, I would recommend that attention should be given urgently to correct a situation where an estimated 5% of the workforce would lose money by taking up employment because of the current structure of the employee income tax/PRSI system. It is essential that the personal taxation system be reformed by integrating the tax and social welfare systems and in such a way as to ensure that no individual ever loses money because he or she takes up employment. The greatest problem in this area relates to the loss of income which would be incurred by unemployed married people with children on taking up employment. The then Minister for Finance pointed out last year as the current system is designed there would be no nett income increase for a married person with four children if his or her gross earning rose from £3,000 to £12,000 per annum.

(b) Corporation Tax

Because of our peripheral location within the European Community and growing competition for investment in Europe, it is important that the Irish Corporation Tax regime does not become uncompetitive vis-a-vis other EC countries and that it takes into account the following issues:-

- Corporation Tax is an international as well as a national issue and cannot be treated in isolation.

- Irish Corporation Tax payments for 1992 will be 2.7% of GNP, higher than in much more developed countries such as Germany, France, Austria, Finland and Switzerland. This is because of the widespread application of investment allowances in these countries.

- The need to eliminate all "hidden taxes" in Ireland such as uncompetitive telecommunications costs, employers liability insurance charges, and transport costs.

- That a recent study published by AIB showed that favourable Corporate Tax and grants were the main incentives which attracted them to Ireland. It is also encouraging that the great majority of foreign firms in Ireland are prepared to invest further.

- That competition for investment projects has intensified not only from the new market economies of Eastern Europe, but also from the highly developed economies of the mainland. For example, the German Minister for Finance recently announced his intention to increase Capital Allowances for investment because tax incentives were the main attraction for foreign investors. The Culliton Report recognises that the 10% tax regime has been the single most effective tool in inducing inward foreign investment.

GRANTS

The Culliton Report recommends a decisive shift from grants for home managed industry to the use of equity to meet gaps in financial markets for venture capital and seed capital. The greater availability of equity capital would certainly be beneficial for many start-up companies and also for high risk expansions of medium to large domestic industry. However, equity capital should be treated as an option rather than a requirement since it is likely that most firms would prefer grants and these are available in other countries.

It is a salutary fact that according to the EC Second Report on State Aids the amount of annual grants for industry per head of the total population in Belgium was £305 per annum, in Germany £300 per annum, in Italy £276, in France £211, and in Ireland £152, slightly below the EC average.

I support the recommendation in the Culliton Report that the maximum pressure must be exerted on the more developed member states of the Community to reduce the scale of their expenditure on grants and incentives to industry as this will improve Ireland's relative position. However, until this is done, we must compete for the growing volume of mobile international investment.

The key measure of the success of Irish industrial policy must be the rate of investment, output growth, and ultimately employment growth in the economy. The rate of investment in manufacturing industry is currently about £1,000 million in fixed assets per annum, and this has resulted in a net increase in business sector employment of about 18,000 per annum over the last four years.

There is an urgent requirement to create the conditions which will encourage a doubling of the current rate of investment in manufacturing industry and therefore double the amount of employment created in the economy. This will require not only the competitive environment advocated in the Culliton Report, but also an incentive package which will be attractive enough to encourage investment of the magnitude required.

EDUCATION AND TRAINING

I welcome the emphasis in the Culliton Report on increasing the emphasis on technical and skill training. The expansion of industry in countries such as Germany, Denmark and The Netherlands for many decades owes much to a very high level of commitment to pre-employment training. For example, 95% of all young people at age 19 in the Federal Republic have educational or training qualifications. In Ireland the proportion of young people who obtain educational qualifications compares favourably with many other European countries, the proportion who receive a Vocational Training Qualification does not.

The Confederation has pressed strongly for many years for the introduction of a pre-employment training within industry scheme which would lead to certification. I welcome the Job Training Scheme announced in the recent Budget which will involve a training programme of up to one year for a target of 10,000 young people and which is expected to commence shortly. The Confederation strongly supports this structured training approach and will be promoting it actively among its members.

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