



Confederation of Irish Industry

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PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry, at CII Bray Regional Meeting, held in the Royal Hotel, Bray, on Monday, 14th October 1985 at 1.00p.m.

HIGHER CAPACITY UTILISATION WILL CREATE MORE JOBS

The recent IDA Study showed that the profit on sales of Irish-owned industry fell to only 1% in 1983.

This low level of profitability was the outcome of a decade of falling output; the removal of tariff barriers; years of recession, and declining cost competitiveness when Irish costs rose more rapidly than in other countries; and the high costs of essential services such as energy, telecommunications, insurance and transport.

These cost penalties combined with a low level of international demand so that capacity utilisation in Irish industry in 1983 was less than 60%. The remaining 40% of capacity was not only idle but represented a massive fixed overhead which reduced the possibility of profit. New overseas firms which had been set up specifically to meet growing international demand in high technology industries were more fortunate as capacity matched demand more closely.

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The cost of under utilised capacity constitutes a massive burden on industry as buildings and machinery incur costs such as maintenance, depreciation, security, obsolescence, and financial charges whether they are used or not.

Although the average level of capacity utilisation in Irish industry has now improved to 68%, this figure is well below the European average of 81% and the rate of 84% currently being achieved in Britain.

Unfortunately, much of the excess capacity in Irish plants may comprise obsolete equipment in old industries. Low capacity utilisation does not reduce the need to increase the rate of annual investment in new technology fixed assets by Irish industry from its current level of about £500 million per annum to £1,000 million per annum. This must be done if the industrial growth rate of the last three years is to be sustained over the next decade.

However, in the short term low capacity utilisation of industrial plant offers the potential of achieving a significant boost to industrial output and employment if appropriate policy measures are taken with this objective in mind. The recent IDA Study shows that for every £100 of additional sales by industry in Ireland about £75 is spent in the Irish economy. Furthermore, every pound given in grants to industry results in a return twenty five times greater in expenditures within the Irish economy.

If factories working at less than 70% capacity could obtain sufficient orders to push plant usage up to 80% the impact on the economy would be dramatic. A 10% increase in industrial sales would add £1,000 million to spending within the economy and create tens of thousands of additional jobs. The aim of the State should be to act as a catalyst in removing barriers to more rapid expansion which are within its control.

For example, it should :

1. Keep Irish inflation at least in line with the EEC average.
2. Do all within its power to encourage a further reduction in interest rates.
3. Divert a greater proportion of State funds earmarked for recruitment and training to stimulate the recruitment and training of hundreds of additional marketing staff. This approach would be self-financing since every additional export marketing executive can create an average of seven jobs in the Irish economy.
4. Cut employers' PRSI payments for labour intensive small businesses. Under certain conditions, this approach would be more than self-financing.

5. Create conditions which would enable the cost of vital services such as electricity, insurance, and transport to be brought into line with other countries.

Irish factories are working at a low level of capacity utilisation compared with their European counterparts. Ireland supplies less than 1% of the demand for industrial products in the European community. There is an urgent need to increase the national resources available for marketing Irish products overseas and to eliminate cost barriers which reduce the possibility of obtaining more orders to get our factories operating at full capacity. A rapid 10% increase in factory sales would generate tens of thousands of jobs within the economy and would stimulate further investment to sustain expansion.

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