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Speech by Liam Connellan, Director General, Confederation of Irish Industry at the Institute of Chartered Accountants in Ireland Course, held in the Newpark Hotel, Kilkenny, on Wednesday, 5th March 1986 at 6.30p.m.

NO ALTERNATIVE TO STRONG INDUSTRIAL GROWTH

The three and a half million people in the Republic of Ireland comprise slightly over 1% of the total population of the European Community. When Ireland joined the EEC in 1973 our GDP per employee was 61% of the European average. This ratio had improved to 71% of the Community by 1985.

The main reason for our improved performance was that, despite the impact of two major international recessions, industry in Ireland expanded more rapidly than throughout the rest of Europe during our first 12 years of membership of the Community. Total employment in the Irish economy also grew faster than in the EEC, but unemployment increased because our population is almost half a million higher than in 1973.

The structure of our economy has changed dramatically so that today about 40% of national output is produced by industry - the same as the European average.

Since 1973 there has been a marked change in the structure of industry in Ireland. The share of fast growing industry such as electronics and chemicals has increased rapidly; the share of established industries such as food, drink and tobacco has slipped slightly; while the share of traditional sectors has fallen. This has not been an exclusively Irish phenomenon but also one which occurred in the United States, Japan, and in the European Community as a whole. There are now indications that the output of the traditional sectors is growing for the first time in this decade.

Industry in Ireland has become more specialised. Last year the top five product groups - computers, chemicals, meat, dairy products, and electrical machinery - accounted for over 50% of industrial output.

Although Ireland produces less than 1% of total European industrial production, it is a much more powerful force in particular sectors of industry, and in some specialist areas we are among the largest producers in Europe. Ireland accounts for just over 5% of total Community milk output; over 7% of Europe's beef, and 3% of Europe's computers.

More specifically, Ireland has the largest lead crystal glass plant in Europe, one of the largest breweries; the largest manufacturer of industrial diamonds, the largest single product cheese plant, the largest beef operator, and an alumina plant on a par with the largest in the European Community.

Although much has been achieved, much remains to be done. Irish living standards and employment levels remain below those in most other Member States because our industrial sector is still far too small. No country has succeeded in creating high living standards and sustainable employment without a proportionately large and dynamic industrial sector.

We have an urgent need to expand our industrial structure so as to reduce our current level of unemployment and provide work opportunities for the large numbers of young people coming on the job market each year. The scale of this task is such that we need to think in terms of doubling our industrial output in the shortest possible period of time. I believe that with appropriate policies and on the assumption of a normal expansion of international trade, industrial output in Ireland can grow by 10% per annum and be doubled in a seven year period.

BENEFITS OF MANUFACTURING GROWTH

A manufacturing growth rate of 10% per annum sustained for the next seven years would result in a major reduction in unemployment. It is also the only way to simultaneously reduce Government borrowing and improve living standards.

Every addition to industrial output creates additional demand for local services such as sub-contracting, component supply, electricity, telecommunications, post, transport, computing facilities, software services, banking, insurance, maintenance, construction, and retailing.

The greater the growth of industrial output the greater will be the demand for "spin-off" support services. Tens of thousands of additional jobs will be created in support services when industrial output is expanding rapidly.

An expansion of industrial output improves the balance of payments and reduces the amount of money which must be borrowed abroad.

NO ALTERNATIVE

There is no alternative to the expansion of productive output. For example, Denmark with a population of just one and a half times larger than Ireland has an industrial output more than three times as great. We have therefore got to double the size of our industrial base if we wish to reduce the gap between Irish and Danish living standards and employment rates. No country has succeeded in creating higher living standards and sustainable employment without a proportionately large and expanding industrial sector.

There are no short-cut policies. It is illusory to believe that the creation of service jobs can be anything but a short-term measure if it is not accompanied by commensurate industrial growth. The primary economic and social focus of the country must be on creating conditions which will enable a 10% expansion of industry to occur.

Since 1973 industry in Ireland has expanded by an average of 5% a year despite two major international recessions, and there are now 50,000 more people employed in the economy. This was a considerable achievement at a time when employment in the European Community fell by over 1 million. The expansion of employment in Ireland has hardly been noticed because of the simultaneous rise of almost half a million in the population which swelled the ranks of the unemployed. It is clear that faster industrial growth is necessary to support a much higher employment level.

AN ACHIEVABLE TARGET

It is possible to create conditions in Ireland which will enable a 10% per annum expansion of industry to occur over the next seven years. It is a formidable challenge, and will be difficult but the benefits for all our people would be very great. It requires a national sense of commitment, positive thinking, and confidence in our ability to increase productive output, and a deeply felt recognition that by doing so the greatest possible contribution is being made to the development of our economy and the creation of employment. It is a goal that should transcend political parties and sectional interest groups. It is a target from which, if achieved, everyone can win. It is the modern equivalent of the wartime slogan "one more cow, one more sow, one more acre under the plough".

Many may agree with the aspiration but question the possibility of achievement. I would respond to such scepticism as follows:

1. A manufacturing growth rate of almost 7% per annum was achieved throughout the 1960s despite the steady abolition of tariff barriers that commenced in 1964.
2. A manufacturing growth rate of 7% per annum or more was achieved in six of the last 13 years.
3. The established manufacturing base has now a much higher proportion of firms in fast-growing industrial sectors than it had a decade ago.
4. Traditional industries, whose output had been declining over the last decade, stopped declining in 1985 and are beginning to show modest expansion. They will gain from the steady increase in demand on the home market expected over the next few years.
5. There is a growing sense of confidence that the European economy, which is the major market for Irish products, will be more buoyant than it has been.
6. Provided Ireland maintains its full range of industrial incentives, we should be able to compete effectively for mobile international investment seeking to supply more products for this growing European market.

For the last quarter century industry in Ireland has expanded twice as fast as the European average. The main stimulus to this higher growth has been the addition each year of many new industries from abroad. Established industries had to cope with the removal of tariff barriers but nevertheless succeeded in adapting their production and marketing practices so as to broadly match the growth performance of industry throughout the rest of Europe.

Our decision to join the European Community and a favourable package of fiscal incentives were important elements in attracting new industries to Ireland.

Successive Governments have given unswerving support in maintaining a package of incentives for investment in order to accelerate the rate of industrial growth. While Irish industry to-day is more efficient and more competitive than ever before, the same can also be said of our competitors. Even if the climate for industrial expansion in terms of inflation, fiscal policies, stimulation of enterprise, and initiative, were on a par with the rest of Europe this would merely ensure that

Irish industrial output would succeed in expanding at the 2% per annum European norm. This rate would not be sufficient either to close the gap with the rest of Europe or to improve living standards and increase employment. The target for profitable industrial expansion must be set at a much more challenging level. A growth performance of this magnitude can only be achieved if exceptional policies to accelerate the rate of growth of industrial investment and output are in place. These include incentives to accelerate investment and reduce industrial costs.

We hear suggestions from time to time that industrial incentives should be channelled primarily to particular areas of industry or to particular kinds of companies. The reality, given the size of the task facing us, is that all parts of industry must be encouraged to make their maximum contribution to this expansion. Factors constraining the growth of indigenous industry must be removed; foreign-owned industry must continue to be attracted to Ireland; large firms must be encouraged to grow larger and small firms to develop the myriad of products and services which form an essential part of a modern industrial infrastructure. We must build on the strengths of all industries, disregarding none, and avoid a simplistic concentration on any single solution. Instead, the emphasis must be placed on the creation of favourable conditions in which all firms of initiative and enterprise will have an equal chance of success.

There is at this time widespread concern in industry about various proposals in the recent Budget statement aimed at reducing the current industrial incentive package. I refer specifically to the proposed changes in the method of computing capital allowances on grant-aided expenditure, the stamp duty on Section 84 lending, and the proposed increase in the liability for ACT. While the Confederation fully appreciates and supports the Government's concern to reduce public spending, and the current account deficit, we believe that it is a false economy to reduce effective expenditure on industrial incentives if the national objectives of increasing employment and improving living standards are to be achieved.

MARKET DIVERSIFICATION

Since 1973 there has been a very remarkable switch in the pattern of Ireland's foreign trade. Exports have become much more important. In 1973 Irish industry exported 35% of its normal output; last year that proportion had increased to 63%.

In 1973 the United Kingdom accounted for 56% of Irish exports and Continental EEC countries accounted for 12%. Last year for the first time in our modern industrial history, Irish industry exported more products to Continental EEC countries than to the United Kingdom. This change occurred despite a steady growth in the volume of our exports to Britain. It occurred because prior to 1973 Irish agricultural products 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. On present trends it seems likely that, within 10 years, the German market alone will be as important as the British market for Irish exporters.

INTERCHANGE OF PEOPLE

The growing internationalisation of Irish industry has major implications for the education and training of those who work in industry. The effective industrial executive, marketer, or professional, will require competence in modern European languages, particularly German, French, Italian and Spanish. The physical diversification of trade which has occurred to-date has been due mainly to the fact that many foreign-owned companies had well-established marketing outlets in particular countries. In this way a framework has been constructed from which much better personal communications can be developed.

Over the last decade there has been a rapid growth of Continental tourists to Ireland and Irish tourists to the Continent. Each day about 40 planes leave Irish airports for Continental destinations. Most of the major Continental capital cities have hundreds of Irish-born residents. In Ireland there are hundreds of residents from most EEC Member States.

However, there is need for even greater concentration of effort to increase our knowledge of Continental languages, and our understanding of the different cultures of the Community. A marketing executive who speaks German and can discuss the merits of his product with a German buyer is far more likely to be effective than one who has to act through an interpreter. A product development engineer who cannot share ideas with research colleagues in France is cut off from a major source of new ideas.

Two years ago the Confederation established a European Orientation Programme for young graduates through which they are sponsored by member companies, and spend one year working in a similar firm in Continental Europe.

Already 40 young graduates have completed this Programme and are now back working in Irish industry. A second Programme is currently under way, and the number of participating firms is increasing steadily. Some member firms of the Confederation have also taken the initiative in placing young Irish graduates for training and work experience on the Continent. I strongly support the initiative taken by Commissioner Sutherland to encourage the interchange between Member States of thousands of young Europeans in order to increase understanding and knowledge of one another's languages and cultures. The National Institute for Higher Education in Limerick and Dublin each have very active programmes in this area; the development of the new Irish Institute at Louvain, Belgium, is a further welcome move in this direction.

It is important that those of us in industry be concerned, not only with sending our young graduates for training to the Continent, but also that we accept young trainees from countries such as France and Germany for work experience in Irish industry.

We have entered a phase of our development where knowledge and experience of the languages and customs of other parts of the European market have become vital components of a successful industrial growth strategy. This knowledge will improve research, interchange of ideas, awareness of markets, and appreciation of consumer tastes. It will widen the scope for embarking on joint ventures with Continental firms.

We must also continue to develop the very close contacts which exist between industry in Ireland and Britain. The advantages of a common language, and similar customs should be seen as the strengths they are. They enable us to build even closer trading relationships and to explore new opportunities. Ireland is Britain's fifth largest trading partner. We must work hard to ensure that this position is maintained and improved.

IMPLICATIONS OF STRONGER CURRENCY

The recent collapse of Sterling has major implications for Irish manufacturers. The price at which Irish products can be sold on the British market is now more than 10% lower than it was six months ago. The cost of importing consumer products from Britain has also dropped substantially.

The drop in Sterling has also resulted in a very great increase in Irish interest rates in order to protect the value of the Punt. The present 11% to 13% real interest rate will, if sustained, create exceptionally

difficult trading conditions for Irish industry. The response of the Irish Government must be to use every means at its disposal to cut costs in Ireland, and to ensure that any benefits arising from the lower costs of essential imports are passed through in full to the sectors of the economy exposed to international trade.

International inflation is falling rapidly in response to lower oil prices and a weaker Dollar. German inflation is already below 1%, Dutch inflation has fallen to 1.3% and Belgian inflation to 2.5%. These falls have occurred before the impact of lower oil prices have worked their way through these economies. Average Irish import prices are now estimated to be about 6% below the level of a year ago while our export prices are about 4% lower. The reality is that domestic inflation must be reduced to zero in the very near future if many Irish factories are to survive. Even this may not be sufficient to cope with a situation where the average price of exports is well below that obtaining a year ago.

It must be pointed out that every other country can buy its raw materials on the open market as cheaply as Ireland can. Any differential in cost competitiveness arises from domestic costs. It is now very clear that the 4.5% inflation rate forecast by the Minister for Finance in the Budget Statement, and the 5.6% increase in current public expenditure must be urgently revised downwards.

What reduction will be made in the budgets allocated for heating and transport throughout the public sector because of the reduction in oil prices? What reductions will be made in the budgets for materials and services purchased by the Government as a result of the recent fall in wholesale prices? What reductions are achievable because of the lower cost of servicing foreign borrowings?

It is essential that immediate adjustments are made in all sectors of the economy to reflect the very significant cost reductions of the last two months. Inflation and public spending must be reduced to reflect our stronger currency. The full benefits of oil price reductions must be passed through to the sectors of the economy exposed to international competition. The costs of essential services such as electricity, gas, oil, post and telecommunications should all be reduced so that industry can meet the challenge of falling prices on export markets. These actions are essential to maintain the viability of manufacturing industry and to protect employment.

INFRASTRUCTURE

Inefficiencies within the economy are an unwelcome burden of cost on the sectors of the economy exposed to international competition. This applies to the efficiency of all sheltered services, and the quality and cost of infrastructure. Over £1,000 million has been invested in the telecommunications system in the last five years. The quality of the system is improving rapidly, and the waiting list for telephones is now less than half that two years ago. More firms are now using computer-to-computer communications between Ireland and the Continent; telecopiers, data links for word processors, and videotext terminals are commonplace. Teleconferencing facilities have been installed in our major cities, and the launching of a satellite under franchise from the Irish Government is less than three years away. All of these developments are bringing closer the development of a highly sophisticated information network system between the factories, businesses, and homes of the European Community. These developments are particularly important for an island nation such as ours as they help to remove any perceptions of remoteness.

Much greater attention must be given to the development of international transport facilities to and from Ireland. Each year over 3 million people use our airports and more than another 3 million travel by sea. Greater frequency and lower cost of access transport will improve industrial and commercial competitiveness. Assistance in developing these services should be an integral part of European regional policy.

Although £150 million per annum is now being spent on the development of our road system, there is need for much higher level of investment. A Road Development Programme has been outlined in Government documents. The pace of this Programme should be accelerated through the building of toll roads financed partly by the State and partly by the private sector. The Confederation believes that the Road Programme could be expanded by an additional £50 million per annum by funding from private sources.

The Irish energy network remain isolated from the rest of Europe. Natural gas can be pumped from Siberia to France, and from Algeria to Denmark. I would like to see the developing Irish natural gas grid linked to the British grid, in order to open up the possibility for exporting or importing as required. The price charged to Irish industry by the State for natural gas should be reduced so as to speed up the pace of industrial growth.

I would also like to see our electricity grid linked to the European grid. Electricity is now an internationally traded commodity, and inter-connectors have been established between most Western European countries. Off-peak electricity from French nuclear plants has recently been offered to Britain at a fraction of British costs.

In summary, our infrastructure must be developed in the context of the broader European network, and where possible integrated with that of other EEC Member States.

JOINT VENTURES

There are 850 foreign-owned companies operating in Ireland. Over 400 of these have parent firms in other Member States of the Community; about 325 are American-owned. The existence of these companies in Ireland offers an opportunity to more than 4,000 Irish-owned manufacturing firms to establish close working relationships, and joint ventures in areas such as sub-contracting, marketing or research and development.

Many Irish manufacturers have the potential to set up joint arrangements with similar sized firms on the Continent whereby production, research and marketing activities can be shared according to their respective strengths. This approach can be a shortcut to carving out a specialist market niche in the Community. Last year 50 agreements were formed between Irish companies and overseas firms in order to exploit better the Community market.

CONCLUSION

The changes which have occurred since we joined the European Community set the scene for further significant developments over the next seven years. In this time the European Community plans to create one truly large European market which is free of all tariff and non-tariff barriers. In this time-span too we should aim to double the output of Irish industry in response to the demands and opportunities in this the largest and most prosperous single market in the world.

Achievement of this challenging 10% annual growth target requires a commitment to work together in maintaining the competitiveness of the economy in matters relating to inflation, taxation, public spending, exchange rate policy, and rewards for risk-taking and enterprise. It needs a matching rate of investment spurred by strong investor confidence. There must be continuing adaptation of our education system to reflect the changing needs of the economy in the fields of technology, business studies, humanities and foreign languages.

I would, however, emphasise that the path towards higher economic development is clearly marked out. Many other countries have followed a similar path. Ireland has achieved an enormous amount over the last quarter century. We have changed from being an agricultural-based society to a modern industrial society. Our population has expanded rapidly. It is true that "we are the young Europeans". We should not shirk from adopting a target to double industrial output within seven years, and from mobilising all the resources of our economy to achieve that target profitably.

Ireland produces less than 1% of European industrial output. I would urge a national commitment to increase that share to 1.5% within seven years in order to achieve a major cut in unemployment. This achievement will require an unswerving commitment by Government to provide a supportive environment, and by all industrialists, and individuals throughout the country to play their own special part.

The task of doubling our industrial base over a seven year period is formidable and challenging. It involves our continuing to consistently out-perform the rest of Europe and by an even larger margin than we have been doing. Such premium performance can only be developed and sustained by the application of exceptional policies to accelerate the rate of industrial investment and by the creation of conditions favourable to industrial growth. This will require Government to give and the community to accept that Government must give, a high priority to industrial growth, even at the expense of other needs within our society. The benefits that will accrue from a major expansion in our industrial base can and will be shared throughout the community in the form of more employment and higher living standards for all our people.