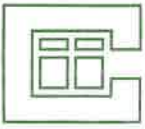


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PRESS RELEASE

The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at Waterford Chamber of Commerce Annual Dinner at the Tower Hotel, Waterford on 4 March 1977

INDUSTRIAL PROSPECTS

PRESENT SITUATION

Before looking forward to the prospects for industry in 1977, I would like to pass some comments on the present situation in industry. There is no doubt that total industrial output is at least 13% higher than at the lowest point of the recession and is now ahead of the pre-recession peak.

The bottom of the recession was reached in the middle of 1975. Recovery began in the third quarter of 1975 and continued at a fairly fast rate until the middle of 1976, by which stage output had reached its pre-recession level. The early stages of the recovery were characterised by fairly rapid growth as stocks were replenished to meet a higher forecast level of demand. Once stocks were replenished, output growth tended to slow down in line with the growth in sales. Thus, between mid 1975 and mid 1976, the quarterly rates of industrial output growth were ½%, 4%, 6% and 3% respectively. Finally, by the third quarter of 1976 there was no growth in the volume of industrial production.

No definite information is available regarding the output of industry in the fourth quarter of last year or the first quarter of 1977. However, such information as is available suggests that industrial output has started to grow again over the last few months. Last week, output figures for October were published which were encouraging. Seasonally adjusted unemployment has been falling, exports are growing well, imports of materials for further production are expanding and the most recent CII/ESRI industrial trends also indicate that some further growth in output has occurred.

Industrial employment tends to follow output trends. Thus, in the recent recession, output had fallen off long before employment in industry fell in proportion. Most firms tried to retain staff levels in anticipation of the start of a

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a recovery. It was, therefore, inevitable that, when the growth in output actually did start, there had to be long delay before additional employees were needed. Thus, total industrial employment stopped falling at the end of 1975 and started to grow in the second quarter of 1976, with the result that about 4,000 people were re-employed.

CII PRE BUDGET SUBMISSION

There is general recognition of the need to create at least 30,000 net new jobs annually, outside agriculture. The Confederation believes that at least 15,000 of these must be in manufacturing industry and that this requires an annual growth rate of 15% in the volume of output.

In its pre budget statements and submissions, the Confederation argued that four main requirements would have to be met if industry was to have a reasonable chance of approaching this target. These were :

- a) Maintenance of our labour cost increases in line with Britain
- b) The abolition of tax on retained earnings in manufacturing.
- c) A significant reduction in the employers' social stamp contribution from the equivalent of 9% to 3% of earnings.
- d) The abolition of the hydrocarbon tax, introduced in the 1976 budget, which placed Irish industry at a cost disadvantage with its competitors.

Depending on the outcome of the British social contract negotiations, it seems possible, though no certain, that the first of these requirements might be achieved. This would enable the average existing Irish manufacturer to hold his share of the growth on the home and export markets. I mention the average manufacturer, because there are some problem sectors to which I would like to return.

If we assume that the IDA will be equally successful in 1977 as in 1976 in the start up of new industries from abroad, it seems likely that total industrial output, including new firms attracted to Ireland by the IDA, could, subject to conditions mentioned below, continue to grow at an annual rate of about 9% during 1977.

Our submission for the abolition of tax on retained earnings in manufacturing was not accepted but, instead, there was a 5% reduction in the company tax rate and an indication that

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manufacturing firms which met certain output and employment criteria would have their tax rate reduced to 25%. The trend is in the right direction but the significance of this concession will depend on how attainable are the criteria eventually set. The personal tax concessions should have the effect of restoring the incentive, particularly for middle and senior management. The Employment Premium Scheme should also prove of value to expanding firms, though its impact will be somewhat dulled by the large number of employee protection Bills currently before the Dail. These Bills may have many features which are considered socially desirable but their impact on industrial costs, output and employment cannot be ignored - any more than the impact of an extra public holiday at a cost to the economy of £10 million. Let us have consistency in the primary objective of improving competitiveness, increasing output and employment.

PROBLEM SECTORS

I would, however, like to refer to two problem areas which require urgent solutions :

- a) Lower wage labour intensive industries : In its pre-budget submissions, The Confederation had recommended that manufacturing employers' social contribution for labour intensive industries, should be reduced to 3%. This would have given a strong boost to the labour intensive sectors of industry and encouraged a rapid growth in output and employment. Unfortunately, the flat rate nature of the increased social contribution and, in part, of the ratified National Pay Agreement places these firms at a disadvantage compared to other sectors and to their British competitors. These labour intensive industries are, usually, in sectors such as clothing and footwear, where output and employment is still about 20% below its pre-recession level. The problem is compounded by the fact that the U.K. has introduced a temporary counter-redundancy scheme, which is providing a direct employment subsidy of up to £1000 per person for one year to vulnerable firms and is being applied to close to 120,000 employees at a cost of £120 million. This makes competition even more difficult for Irish firms in these sectors. I would strongly recommend that full consideration is given to these factors when preparing the new Employment Premium Scheme in order to avoid unnecessary unemployment due to temporary factors. Such a high level of operating subsidy surely explains to a considerable extent the 30% rise in the volume of clothing and footwear imports from Britain during 1976, and can hardly be considered in accord with the fair trading provisions of the Treaty of Rome.

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- b) The second problem area concerns the distortion to Anglo-Irish trade in biscuit, sugar and flour confectionery, due to the partial application of the Common Agricultural Policy to these products. Because of the Green Pound differential between Britain and Ireland, confectionery manufacturers in Britain can buy their main raw materials at prices 20% cheaper than in Ireland. No adjustment to take account of this is made when the finished product is traded internationally. As a result, contracts have been lost by Irish industry and output and employment has had to be cut back. This is so clearly a distortion of trade and in total conflict with Article '86 of the Treaty of Rome, that rapid action to correct the situation must be taken.

Industries employing 30,000 people are affected by one or other of these policies.

CONCLUSION

The ratification of the National Pay Agreement and the approach adopted in the 1977 budget have improved the climate for industrial growth. On present indications for the development of international trade, total industrial output, when the output from new firms is included, could expand by about 9% during 1977 and employment could also continue rising, but only if the problem areas mentioned above are eliminated. It is not possible to make more definite projections on output or employment growth until the details of the company tax scheme are announced, together with the approach to the labour intensive and confectionery sectors. Industrial confidence has improved. We must now ensure that it continues to be fostered and that technical barriers to competition are removed. If this is done, the output and employment gains in manufacturing during 1977 will be more significant.

Finally, I wish to emphasise that I am not arguing for the development of an industrial economy based on low wages, or on subsidies. Our goods must, however, be sufficiently competitive to enable the development of adequate demand when the maximum marketing effort is made. The future development of our industry depends on the production and marketing of products, which can overcome our geographical disadvantage of distance from our main markets and which, because of their quality, can command a competitive price.

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