

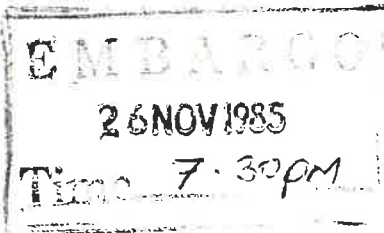


Confederation of Irish Industry

Confederation House, Kildare Street, Dublin 2. Tel: (01) 779801.
Telex: 24711. Telegrams: Confindus Dublin.

PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry, at Chairman's Dinner of the Irish Management Institute, Cork Region, at the Silver Springs Hotel, Cork, on Tuesday, 26th November 1985 at 7.30p.m.



TWIN CHALLENGES OF FALLING INFLATION,
AND REWARDING INITIATIVE MUST BE FACED

Falling Inflation

The rapid decline in international inflation poses a new threat to Irish industry. Inflation in the industrialised countries has now dropped to 4.3%, the smallest rise since December 1969.

There is increasing evidence that the present downward trend of inflation will continue. The average price of Irish imports is now lower than a year ago and has been falling since June. Irish export prices have been falling since July.

This trend of declining prices has been caused by a combination of falling commodity prices, and the weakening of

President: Leo O'Donnell. Director General: Liam Connellan. Secretary: Gerard Sheehy.

Brussels Office: Irish Business Bureau, 66 Avenue de Cortenberg, 3rd Floor, Box 3, 1040 Brussels, Belgium, Tel: 163 22 736 19 74. Telex: 65311 1BBBXL.

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the dollar. Commodity prices are 18% lower than a year ago; and industrial raw material prices are about 5% lower. In the last three months wholesale prices have fallen in Belgium, France, The Netherlands, Italy, Switzerland, The United States and Japan; and consumer prices have fallen in Germany and Japan.

These developments have major implications for the Irish economy. The recent EEC forecast of a 3.9% inflation for the Community in 1986 may turn out to be too high as this forecast preceded the recent fall of the dollar.

Much of the difficulty in controlling Government finances this year has been due to a lower than expected rate of inflation. This resulted in lower Government revenue, but spending was not cut back in line.

In 1986 international inflation now seems likely to fall close to a 3% rate. Day-to-day public spending must be contained within this ceiling so that the current budget deficit can be reduced by revenue buoyancy rather than by increasing the burden of taxation.

Rewarding Initiative

Revenue buoyancy depends on economic growth, and, in turn, economic growth requires the existence of conditions which

reward initiative, risk-taking and effort, particularly among key employees. The commitment and initiative of highly skilled staff and key executives is fundamental to the success of enterprise.

Their motivation can be fostered by encouraging such staff to purchase shares in the company in which they work by means of the Business Development Scheme, by exercising share options or by profit-sharing schemes.

As the law stands, it does not facilitate executives in many companies either to purchase shares or dispose of these shares.

Irish incorporated companies have no power to purchase their own shares. Some mechanism is necessary which would allow companies to set up trustee-type arrangements which would enable a limited proportion of a company's shares to be acquired or transferred. Furthermore, where share options are given they are subject to taxation on receipt rather than on the disposal of shares.

I would like to see alterations in legislative provisions so that key staff would be provided with a mechanism to purchase, and if necessary dispose of, shares in the companies in which they work, be able to avail of the incentives provided under the Business Development Scheme, and have the interest on money borrowed to purchase shares in these companies allowable against taxable income.

Profit sharing schemes require that the money paid to the trustees to acquire shares must be paid by the company. This requirement should be altered so that it would be possible to combine in a single package a combination of profit-sharing schemes, share incentive schemes, and their purchase by the employee through the Business Development Scheme.

Industry is starved of equity finance and has been encountering increasing difficulty in motivating the key staff who can contribute most to the firm's development. I would strongly urge that the necessary changes be made in legislation to enable, particularly, the key staff of companies, to increase their participation in the share capital of the firm, and in this way deepen their involvement in and commitment to the success of the enterprise.

END