PRESS RELEASE

Address by Liam Connellan, Director General, Confederation of Irish Industry, at CII Cork Region Luncheon, Arbutus Lodge Hotel, Thursday, 7th December 1989 at 1.00p.m.

NEED TO IMPROVE ATTRACTION OF IRELAND FOR NEW MOBILE INVESTMENT

ESTABLISHED INDUSTRY HAS SHARPLY INCREASED INVESTMENT THIS YEAR AND MORE JOBS HAVE BEEN CREATED IN THE MARKET SECTOR OF THE ECONOMY THAN FOR MANY YEARS.

The improvement in the economic climate resulting from lower inflation and interest rates in recent years has resulted in more competitive industry, greater demand for Irish products, higher output in our factories, and increased investment. So far this year investment in productive machinery in the Irish economy has expanded by a remarkable 30%. This investment creates the base for future expansion in output and higher employment.

A surge in investment is occurring because factories are operating close to full capacity, and industries have the confidence that they can win more orders operating from an Irish base.

IRELAND HAS LOST MARKET SHARE OF NEW MOBILE INVESTMENT IN EUROPE FROM THE UNITED STATES AND JAPAN IN THE 1980S COMPARED TO THE 1970S.

It is essential that the reality is faced that there is intense competition for international mobile investment and that we have been losing market share of US and Japanese manufacturing investment in Europe. Until the early 1980s Ireland accounted for a cumulative 11% of US manufacturing investment in Europe and 9% of Japanese manufacturing investment in Europe. Ireland has lost significant market share between the 1970s and 1980s because of much more intense competition during a period when the international economy was coping with the aftermath of recession and high unemployment.

THERE ARE MORE THAN TWENTY TAX FREE ZONES IN THE EC, MANY IN MORE DEVELOPED MEMBER STATES.

All European countries recognise the importance of low taxation as a means for attracting investment. There are more than twenty tax free zones throughout the European Community, many of which are in regions of the Community which are much more highly developed than Ireland. Mobile investment is attracted to specific locations such as towns, cities, or ports, which offer an attractive package. It is, therefore, not enough to compare the average rate of taxation in large member states. The tax free status of specific locations are much more relevant.

RECENT DEVELOPMENTS IN EASTERN EUROPE WILL INTRODUCE MORE COMPETITION FOR MOBILE INTERNATIONAL MANUFACTURING INVESTMENT.

It is likely that there will be an increased flow of investment from many Community states and the United States to Eastern Europe in order to assist in the reconstruction of these economies, and this will result in more competition for internationally mobile investment. The recent decision by US General Electric to invest £150 million in a Hungarian firm is but one example.

STATE INCENTIVES PER INDUSTRIAL EMPLOYEE ARE HIGHER IN ITALY, BELGIUM AND LUXEMBOURG.

The recent European Commission survey of State Aids to Industry in the European Community showed that the absolute amount of State aids per employee in industry per annum in Luxembourg was £1,202, in Italy £1,044, in Belgium £856, and in Ireland £797. The average State expenditure on aid to industry throughout the EC was £593 per industrial employee. This means that Irish Government agencies have to match this level of grant just to maintain a level playing field, let alone compensate for our geographic location.

DECISIONS MADE IN PREVIOUS YEARS TO INCREASE CORPORATE TAX REVENUE IN IRELAND WILL PLACE IRELAND AHEAD OF AT LEAST SIX OTHER EUROPEAN COUNTRIES IN THE YIELD FROM CORPORATION PROFITS TAX AS A PERCENTAGE OF NATIONAL OUTPUT.

The yield from corporation tax in Ireland in 1989 is expected to be 25% higher than two years ago. Decisions made in previous years will result in a further substantial increase over the next two years in addition to the higher taxation which can be expected from revenue buoyancy. These decision include the termination of export profits tax relief, and reductions in capital allowances. The cumulative effect will be to raise the yield from corporate taxation in Ireland to about 2.5% of GNP which would be higher than the percentage achieved in

1987 in France, Germany, Spain, Denmark, Greece, Sweden, Switzerland, Austria and Finland.

The level of corporate tax is an extremely important aspect of the conditions for investment. Low taxation has been one of the key incentives for the attraction of industry to Ireland and in overcoming the disadvantages of our geographic location. It reduces the need for direct investment in grants, is at no additional cost to the Exchequer for new investment since, if the incentive were not in existence, the companies would locate elsewhere.

GOVERNMENT GRANTS AS A PERCENTAGE OF TOTAL FIXED ASSET INVESTMENT IN MANUFACTURING INDUSTRY IN IRELAND HAVE FALLEN SIGNIFICANTLY IN RECENT YEARS.

Over the last decade Ireland has been reducing grant payments for fixed asset investment in manufacturing industry. Ten years ago such grant payments accounted for 12% of total fixed asset investment in the manufacturing sector; five years ago grants for fixed assets accounted for 21%; but by 1988 the percentage had been reduced to less than 10%, a much lower rate than at any other time over the last ten years.

Ireland has, therefore, simultaneously been reducing capital grants for fixed asset investment in manufacturing industry and reducing capital allowances for investment.

MORE PRODUCTIVE INVESTMENT NECESSARY FOR JOB CREATION.

There has been a tendency in recent years to question the importance of investment in manufacturing industry. There is a very close link between after-tax profits and investment; between investment and output; and between output and employment. Industry is the primary contributor to increasing the output of the Irish economy. Without increased investment and higher output the economy will not be able to generate additional sustainable employment.

NEED TO IMPROVE THE ATTRACTION OF IRELAND FOR MOBILE INTERNATIONAL INVESTMENT.

There is much greater competition for mobile international investment. Ireland needs much more investment in industry in order to increase output and employment. Industries will locate elsewhere because they perceive conditions to be better. Established industries in Ireland are now investing heavily in this country. But we also need to increase our share of mobile international investment. This means that the attractions of Ireland as an industrial location must be improved. In these circumstances it would be foolhardy to contemplate increasing the effective rate of corporate taxation. International competition clearly demonstrates that Ireland must not only retain its present corporate tax incentives but must seek ways to gain a competitive advantage in order to increase its market share of new mobile international investment.

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