Address by Liam Connellan, Director General, Confederation of Irish Industry, at Annual Conference of Institution of Engineers of Ireland at Ballymascanlon House Hotel, Dundalk, Friday, 29th September 1989 at 2.15p.m.

THE INDUSTRIAL CHALLENGE

ECONOMIC OUTPUT AND EMPLOYMENT

Throughout Europe in the 1960s and the early 1970s a 4.5% growth in economic output was necessary in order to maintain the level of employment. In the 1980s the rate of improvement of productivity per employee in the European Community has dropped to about 2%. Achievement of a growth rate in excess of this figure now leads to an increase in total employment.

This trend may seems surprising in the light of the massive advances in technology which have occurred over the last fifteen years and which were reflected in sharp increases in the productivity of the manufacturing sector. However, they do conceal major changes in the structure of European employment. Since 1970 employment in agriculture fell from 23% to 8% of total employment; employment in industry from 40% to 33%; and employment in the services sector increased from 37% to 60%.

Ireland has experienced similar changes to those in the European economy generally. The proportion of total employment accounted for by industry in Ireland has been much more stable than in the rest of Europe falling only marginally from 28% in 1972 to 27% in 1988. Employment in Irish industry is now increasing once more.

THE ROLE OF MANUFACTURING INDUSTRY

Industry is the main contributor to the growth in Ireland's national output and to increased employment throughout the economy. Strong growth in manufacturing industry, which accounts for one-third of our total economic output, has made a substantial contribution to increased employment in the country.

The multiplier effect of each manufacturing job is increasing. Technological change and greater recourse to sub-contracting have resulted in each industrial job being associated with five jobs elsewhere in the economy compared with only four jobs at the beginning of the decade. The relationship between total economic output and total employment in the economy has remained stable. The change in the manufacturing multiplier reflects a reallocation of employment within the economy and changes in business practice, particularly in the area of sub-contracting.

The switch to sub-contracting is one of the hallmarks of an industrialised economy and reflects the thrust towards greater sophistication and efficiency. For many years Japanese automobile firms have achieved much higher levels of output per person than their counterparts in other countries because of the existence of a very well developed sub-contracting infrastructure. A similar trend is evident in Ireland as large firms sub-contract a wide range of services such as transport, cleaning, maintenance, computer services, accounting services etc. The larger firm can therefore concentrate on its core business and can rely on a vibrant small firm sector to provide a wide range of components and services.

Ireland has a comprehensive network of small and medium-sized enterprises which are supplying a wide range of products, sub-components and services to international customers in Ireland and abroad. For every manufacturing firm which employs more than 100 employees, producing high volume products for a European market, there are twenty small firms. These small firms manufacture a wide range of specialised goods for regional markets or sub-components for their larger counterparts.

CHANGE IN INDUSTRIAL STRUCTURE

In 1973 25% of the Irish workforce were employed in agriculture and less than half in the services sector. Today the proportion engaged in agriculture has declined to 15%, those in industry to 28%, while the services contribution has increased to 58%. Industry in Ireland accounts for about the same proportion of economic output as in the rest of the Community.

During recent decades it has been the primary aim of government policy to promote the expansion of industry so as offset the structural decline in agriculture and to create the basis for higher employment directly in industry and also in the services sector. Since 1960 manufacturing output has expanded on average by 5% per annum. In 1987, 1988 and so far in 1989 the rate of growth of manufacturing industry has increased at more than twice this annual rate. The primary influence on the more rapid growth of manufacturing industry in Ireland compared with the European Community generally has been the continued inflow of foreign investment.

But there have been major structural changes within the manufacturing sector also. New technology industries such as electronics, electrical, and pharmaceutical have expanded by an average of 15% per annum since 1973; agricultural-based industries have expanded by 3% per annum and the traditional sectors have fallen in output by 2% per annum. In 1988 the performance of the traditional sectors has been turn around and they achieved a growth in output of about 3%. However, as a result of these differential growth rates, new technology industries now account for about half of total manufacturing output; the food, drink and tobacco sector for about a quarter; and the traditional sectors for one quarter.

Despite the strong growth of foreign-owned industries, five Irish-owned companies are among the top 500 quoted companies in Europe and some Irish-owned companies such as Jefferson Smurfit (paper packaging), Guinness Peat Aviation (aircraft leasing), and Waterford Glass (handmade lead crystal glass) are world leaders in their particular sectors. In recent years Irish food firms in the meat, dairy products, and alcoholic drinks sectors have expanded rapidly and many are already among the leaders in Europe.

INVESTMENT: A TWO-WAY FLOW

Like trade, investment is also a two-way flow. In recent decades overseas investment in Ireland so that there are now almost 900 foreign manufacturing companies operating here with the total investment of well over £10 billion. Almost 50% of these are from other member states of the European Community and 38% from the United States. Over the last five years the share of overseas investment from other EC member states has increased significantly. There has also been substantial investment by

British property, and services companies in the Republic. But Irish firms are also investing abroad to gain market share. In 1988 Irish public companies invested almost £1 billion in the United States and EC countries. This year the emphasis is likely to switch to other EC countries. Furthermore, many Irish private and public organisations are now providing technical, medical, financial and business services in the Middle and Far East, Africa and throughout the European Community. Developments in information technology enable much work of this nature to be carried out from an Irish base. The International Financial Services Sector is an excellent example.

Irish industry is a specialised producer in the large single European market and accounts for less than 1% of total European industrial output. However, many individual industries operating in Ireland are of European scale in their particular industrial segment and hundreds of others are seeking to restructure their operations by taking over companies in other parts of the Community in order to improve their competitiveness. For example, CRH has operations in Spain and Holland; Jefferson Smurfit in Britain, Holland, Italy and Spain; Waterford Foods in Britain; Independent Newspapers in Britain, and France; and Bord Bainne in Belgium and Britain.

+ AUSTRALIA

The flow of new overseas investment into Ireland has continued unabated. Over the last year companies like Boeing, Pratt and Whitney, Fujitsu, Isotec, have recently announced major investments and in addition 75 firms have entered into commitments to set up activities in the International Financial Services Centre.

The total volume of investment in Ireland is now rising sharply. I expect that total investment in machinery and construction this year will increase in volume by about 15% and will account for about 24% of national output, well ahead of the performance in most other European countries. This increased investment will lay the foundation for continued expansion of output and employment.

THE 1992 EFFECT

The primary objective of creating a single European market by 1992 is to eliminate inefficiencies and create a more competitive and dynamic European

Community. The prize is expected to be a much faster rate of economic growth within the Community and the creation of five million more jobs in Europe than would otherwise have been the case.

The Single European Act sets a target for member states of the European Community to create a single internal market of 320 million consumers by December 31st 1992. It defines the internal market as an area without frontiers in which the free movement of goods, persona, services and capital is ensured in accordance with the provision of the EC Treaty. The Single European Act provides the political commitment to achieve the Internal Market by 1992 and a better decision-making process for so doing.

The Act also makes provision for additional financial support for the less-developed regions in order to reduce regional disparities and to help them to participate more fully in the single market. This has led to a doubling of the EC Structural Funds (the European Social Fund, the European Regional Fund, and the FEOGA Guidance Fund).

A Programme of Action to ensure the target date of 1992 could be achieved as published in the EC Commission's White Paper on the Completion of the Internal Market. The White Paper contains some 300 proposals relating to the elimination of barriers to free movement of goods, services, capital and people. It concentrates on the removal of three main barriers to achieving the objective of creating a single European market.

1. **Elimination of Physical Barriers**

   It is the Commission's intention that customs posts at frontiers should disappear by 1992. At present customs posts are used to collect statistics, check VAT documents, and to control animal movements, security, emigration and drugs.

   The cost in terms of time and money of transport delays in administrative procedures from such activities has been estimated at about 2% of Community GDP annually. As Ireland exports 80% of its industrial output, the elimination of such transport delays would considerably improve our competitiveness.

2. Removal of Technical Barriers

The Community has drawn up a timetable for the abolition of technical barriers by means of technical harmonisation and standards policy. The number of technical barriers within the Community has grown over the last ten years. Previously the Community developed detailed harmonisation directives, which involved the Council of Ministers debating the fine detail of specific technical standards. The new approach is that where goods are lawfully marketed to adequate quality standards in one member state, all member states must admit the products into circulation. In future, mutual recognition of national regulations and standards will be the rule.

In addition, the opening up of public purchasing throughout the Community will offer significant business opportunities to Irish industry; the free movement of self-employed and employees by 1992 is required and member states will be prevented from reserving positions for their own nationals. Furthermore, there will be free movement of services such as financial services and transport.

I would like to elaborate on the opening up of public purchasing. Purchases by governments and public enterprises (in the sectors of transport, energy, and telecommunications, for example) represent an annual turnover of £400 billion Irish pounds - amounting to 15% of Community GDP.

Currently only 20% of public procurement is the subject of real open competition throughout the Community; more than 75% of purchases are reserved for national enterprises. The Cecchini Report estimated that nationalistic government procurement policies cost the Community about 17 billion ECUs per annum or 0.5% of Community GDP.

The opening up of public procurement in the Community will offer significant business opportunities to Irish industry. The new procedures for awarding public supplies contracts will help the introduction of Community-wide competitive tendering for Government purchasing and will greatly increase the opportunities for industry to expand both in Community and home markets.

3. **Fiscal Barriers**

The approximation of VAT and indirect taxes will be a major feature of the Single European Market. Each approximation will probably involve two rates of Value Added Tax - a standard rate and a reduced rate. Member states would have the freedom to fix their standard rate at 15% minimum and the reduced rate between 4% and 9%. Targeted rates of Excise Duty would apply to alcohol, tobacco and mineral oils. As Irish rates of indirect taxes, particularly Excise Duties, are among the highest in Europe, the cost to the Irish Exchequer of introducing such changes could be of the order of £400 million per annum. While this may cause major difficulties for Ireland in restructuring or indirect tax system it is essential that the restructuring should take place. A country which exports 80% of its manufacturing output has an exceptionally strong interest in ensuring that manufactured goods have free and unencumbered access to all parts of the Single European Market.

SECTORAL IMPLICATIONS

It is estimated that about half of industrial employment in the European Community is in sectors which are potentially sensitive to the impact of 1992. These include high growth sectors such as computers and telecommunications, which must undergo rationalisation in order to improve European competitiveness vis-a-vis the United States and Japan; industries which are protected by non-tariff barriers and where there are high price differentials between the different member states such as pharmaceuticals and drinks; consumer goods industries where there is considerable import penetration from outside the Community and where there are expected to be major changes in distribution such as clothing and footwear, motor vehicles, radio and television and domestic electrical appliances. Many services sectors such as wholesale distribution, financial services and transport are also likely to undergo significant change.

The overall impact of these changes is likely to be very positive. Industry in Ireland has undergone major restructuring over the last fifteen years and has sustained an average annual growth rate which was more than twice that of the European average. We have diversified our markets.

In 1973 the home market in the Republic accounted for 40% of the sales of Irish manufacturers, today that has dropped to 20%. About 25% of Irish industrial output is sold on the British market and 40% in Continental Europe. As time progresses the relative importance of the home market will decline further and Irish sales throughout the European Community are likely to reflect more closely the proportion of European economic wealth concentrated in the different member states.

Irish industry is strongly in favour of the completion of the Internal Market by 1992. Studies conducted as part of the Cecchini Report indicated that most Irish firms believe that the opportunities offered by the completion of the Internal Market exceed the risks. The fact that Irish sales in the Community are increasing at a rate three times faster than total demand confirms the validity of this belief. Firms believe that sales volumes will be higher and costs lower as a result of the elimination of barriers.

IRISH COMPETITIVENESS

The recently published World Competitiveness Report 1989 shows that Ireland is ranked No.16 among the most industrialised countries in the world on the scoreboard of international competitiveness. A World Bank report shows that Ireland is the 24th wealthiest country in the world in relation to income per capita but in business confidence, reflecting the views of senior executives operating businesses in Ireland is ranked in 9th position. This is an important finding since investment decisions are strongly influenced by the level of business confidence.

TRANSPORT

There has been a remarkable increase in the volume of passenger traffic between Ireland and other EC countries in recent years. The Dublin-London air corridor accounting for two million passengers annually is the second busiest route in Europe after London-Paris. Traffic to and from Continental destinations such as Paris, Frankfurt and Amsterdam is rising sharply.

Sometimes there is a tendency to over emphasise our peripheral location. It is worth remembering that 130 million live within 700 miles or a two-day delivery period by surface transport from our east coast ports. Ireland is closer to the densely populated areas of the Community than Portugal, Central and Southern Italy, Southern Spain and Greece. Furthermore, we are located at the western gateway of the Community and speak *the* major international language of commerce which is a marked advantage for

American and Japanese investors. Our industrial priorities must be to reduce the time and cost of transporting goods over that 700 mile stretch of land and water.

APPLICATION OF TECHNOLOGY

Implementation of new technology requires the employment of a high proportion of well qualified technologists. More than one-third of the total staff of many firms in the new technology sectors of the economy have third-level qualifications. But technological advances are relevant for all sectors of industry. The availability of qualified staff enables firms to exploit the potential of patents, and of licensing opportunities, to carry out product and process development, and to interact productively with research institutes and universities.

Irish industry favours the switching of industrial incentives from fixed assets to marketing and technology. There is currently evidence of a sharp increase in the demand for engineering staff in Irish industry. Advertised vacancies for engineers in the second quarter of this year were 57% higher than the previous year. Furthermore, unemployment among graduates who qualified from our universities in 1988 at 3% was the lowest for more than a decade.

It is vital for the continued development of the Irish economy that there should be a sustained increase in the number of technical and business graduates qualifying each year. Demand for these graduates at home and abroad is now rising faster than the supply from our universities.

New technologies, products and processes, have transformed entire sectors of economic activity, creating new industries and new jobs. Advanced technologies are evolving so rapidly that it is estimated that two-thirds of the technologies that will be in use in the year 2000 are not yet available. International co-operation in the area of new technology has improved in the last few years. This has been characterised by world-wide computerised computer networks and international governments/private sectors/industry programmes such as EURIKA, ESPRIT and RACE.

Industry must ensure that technological progress in the laboratory is efficiently translated into technical progress and production leading to improved competitiveness, expansion of industrial output and increased employment. The challenge in all our countries is to create conditions which will enable firms to improve competitiveness. Barriers to new technology must be overcome by effective management so that Irish firms can prosper and grow in the Single European Market.

EMPLOYMENT RISING, POPULATION STATIC

Over the last two decades Ireland has had to cope with a rapidly growing population and very slow growth in employment which in turn has lead to a sharp increase in unemployment from 6% of the workforce in 1972 to 17.5% today. Over the next five years the total population is expected to remain static due to the falling birth rate but declining migration. If Irish employment merely keeps pace with European trends, the proportion of the total population in paid employment will rise from about 32% at present to 34% by 1995. There is a good prospect that Irish GDP per capita can reach 70% of the European Community average for the first time by 1995. It is possible that we shall do even better. Over the last three years employment in the British economy has increased by an average of 2% per annum. If Ireland could emulate this performance in the period to 1995 unemployment rate would drop below 10%.

ENGINEERS IN MANAGEMENT

The recent report "Managers for Ireland" of the Advisory Committee of Management Training to the Minister for Labour had some pertinent points to make of relevance to engineers.

In 1986 over 2,000 Irish graduates were recruited at home and abroad by industry, commerce and public service organisations. Just under half had engineering or science qualifications, nearly a third had commerce/business studies degrees and a quarter had an arts degree.

Engineering is one of main routes to management. It is the specialist route, whereby people such as engineers by virtue of their specialist or functional expertise acquires a management position. The report recommended that engineers should be educated specifically for management and it was recommended that they should have experienced a management business programme containing a minimum core including the management of people, market dynamics, enterprise development, finance, production/distribution systems, and basic economics. Such a core could be incorporated into regular undergraduate programmes or acquired as an add-on module.

The basis of this thinking is that any specialist executive within industry should have a basic knowledge of the other primary business functions so that he can interact effectively with his/her colleagues in order to work as an effective team.

Furthermore, it was recommended that entry to third level should be confined to students with a minimum competence in at least one modern Continental language. The University of Limerick has already introduced this requirement. To allow second level students to adjust it was suggested that this requirement should not be introduced generally until 1992. Third level education could then effectively develop the market base created at second level to one whose emphasis is communications skills.

CONCLUSION

The Confederation is strongly supportive of the policies which have been successful in reducing Exchequer borrowing and brining Irish inflation and interest rates down to internationally competitive levels. As a result, manufacturing output has increased and employment in the economy is growing at a faster rate than at any time in the last decade. Industry wishes to continue the substantial progress of the last few years and believes that this will lead to a significant annual increase in employment throughout the economy. I am confident that provided international conditions remain favourable, Irish economic output can continue to expand strongly and that there will be a substantial increase in annual employment. This will require a continuation of prudent management and discipline to keep our inflation rate in line with the narrow band EMS countries.

Ireland has held its own in the European Community since 1973 despite major difficulties in adaptation from being a protected to being an open economy. We have many advantages in the Europe of 1989. We have a growing youthful population when the population of many parts of the Community is stagnant or falling. We have a good educational system. We are the western gateway to Europe and have 130 million people within two hours journey by air or two days by surface transport. We speak the international language of commerce and we have ample space for development. We now have a strong currency, low interest rates, investment is increasing and much of the spare capacity which had existed has been used up. There is an urgent need for more and more investment in productive activities and infrastructure and there is a direct link between this investment and output and employment. We must plan now for expansion to lift the economy to a new platform for development.

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