



## Confederation of Irish Industry

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# PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry at Meeting of Mullingar Rotary Club at the Greville Arms Hotel, at 6.30 p.m. on Monday 21 January 1985

### COMPETITIVE PRESSURES ON IRISH INDUSTRY HAVE BECOME MUCH MORE SEVERE

The high relative rate of inflation in Ireland in recent years has had a very damaging impact on employment in many industrial sectors.

Between 1978 and 1984 employment in manufacturing industry fell by 14,000 but when the contribution of sectors dominated by new industries is discounted, the decline in jobs in the remainder of industry, which accounted for over three quarters of employment in 1978, was very much greater.

The more rapid decline of long established industries reflects the fall of over 10% in the currency adjusted unit cost competitiveness of the Irish economy since 1978.

Over the last year competitive pressures have become much more severe vis-a-vis Britain which is still our main trading partner. The combination of a 10% fall in the value of sterling against the Irish pound and a British inflation rate which was almost 2% lower than ours, has meant that Irish manufacturers have been subjected to fierce competition on the British market and on the Irish market.

The cost of British goods has dropped by 10% compared to Irish products. Irish firms must, therefore, either cut their prices or lose the business. The ability of Irish firms to cut prices is severely limited by their very low profitability. The average domestic manufacturing firm had a profit on sales of only 5% in 1984. These pressures, if sustained, have serious implications for the ability of hundreds of Irish manufacturers to maintain output and employment.

The answer must be to place exceptionally strong emphasis on reducing our inflation rate to a level below that of Britain in order to compensate for the weakening of sterling.

Next month the Irish rate of inflation should be down close to 5%. It would need to be reduced to the 2% or 3% rate obtaining in countries such as Germany and Holland, in order to compensate to some extent for the competitive advantage gained by British manufacturers. It is, therefore, vitally important that the Government should, at a very minimum, adhere strictly to its targets for controlling public expenditure this year.

The intensification of competitive pressures in recent months must be shared across the economy. The exposed manufacturing sector has little choice but to cut its prices to meet British competition. To assist industry in doing this, the cost of essential services to industry, where they are already much higher than the average of our competitors, should also be cut. This applies particularly to electricity, telecommunications, natural gas, and the tax on road diesel oil. What I am asking is that sectors of the economy, sheltered from international competition, whether in the public or private sector, should be required to make the same adjustments as the sectors which are exposed directly to international competition.

There must be a full realisation of the urgent need to improve productivity in all parts of the economy so that Irish unit costs can be reduced to the level necessary to compete on an equal basis with British products. Maintenance of cost competitiveness is essential for survival.

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