

SYMPOSIUM ON THE FINDINGS OF THE INDUSTRIAL POLICY REVIEW GROUP

PATRICK J. COONEY
Gleeson Group

(read before the Society, 26 March 1992)

1. INTRODUCTION

Firstly I would like to thank Dr. Casey and the Society for asking me here this evening to speak about the Culliton Report and its implications for Irish industry.

The Brief of the Report was very specific to a review of the present industrial environment, the various forces, both national and international which produced it, and paying particular attention to policy changes which could be initiated or influenced by future Government policy. Any recommendations were to be tightly focused around job and wealth creation.

The end product is, I believe, a well-constructed analysis of the present situation and most, though I believe not all of the recommendations are soundly based. I have no doubt some people will say there is nothing new in the recommendations, nothing that a bit of common sense wouldn't dictate.

This may be so and, as you will hear later on, I do not entirely disagree with this view, but I believe we can all agree that common sense is not all that common, and I also believe that the efforts of the past to encourage a fertile climate for the development of Irish industry have all too often demonstrated a great paucity of common sense.

Irish indigenous industry is my part of the overall picture and it is on my own particular experience in this sector that I will concentrate my views. Perhaps at this stage I should briefly tell you what that experience has been. I am the Managing Director and, together with my brother, the sole owners of the Gleeson Group of companies. The Group consists of eight subsidiaries and operates in 6 main areas:

1. Wholesale distribution of packaged beers;
2. Soft drinks production;
3. Natural Mineral Water production;
4. Water cooler rental and distribution;
5. Keg distribution;
6. PET preform and bottle manufacturing.

The Group employs 300 people, operates its own national distribution fleet of 50 + lorries, and presently has a turnover of circa £33 million.

This loosely ranks our Company by turnover approximately 220 in the general categories of companies within the top 100 manufacturing companies and of privately owned indigenous Irish companies probably in the top 20/30. This rating I think reflects more on the lack of success of Irish indigenous companies rather than any great merit to our Group.

Why are there so few successful indigenous Irish companies? Why do successful Irish companies grow to a certain size and then sell out their interest to the highest bidding multinational or other company with access to market funds?

This I believe is the fundamental conundrum to the development of a vibrant dynamic indigenous industry. I am not sure that this particular issue has been well addressed by the Culliton Report. I do not believe anybody would disagree with:

1. continued correction of the public finances;
2. stable exchange rate policy;
3. continued investment in infrastructure with extraction of maximum assistance from Europe;
4. vigilance over the price of utilities;
5. reform of the educational system with a greater emphasis on vocational rather than academic subjects, etc.

These are not contentious and fall into the category of good house-keeping rather than any great policy innovation. These are not the issues which trip up the entrepreneur or the development of indigenous enterprise. The areas of most relevance and concern to Irish industry are:

1. The taxation system;
2. State aid policy and access to capital;
3. Size of domestic market and the cost of developing and delivering to foreign markets.

These I believe are some of the more important issues facing Irish indigenous industry today.

2. THE TAXATION SYSTEM

We can all agree with Culliton that the system of personal taxation as presently constructed is a very definite disincentive to the full employment of labour, whether that situation arises because it is not worth an individual's time to work or whether it is hugely expensive to employ one extra person or give a £1 in the pocket wage increase. This has been discussed ad nauseum and has universal agreement for as long as I remember. Yet, will we see any change at Government level to seriously improve the situation? I think we can be forgiven if we are a little sceptical and perhaps even cynical in the matter.

It is universally agreed by all and sundry, and even by politicians, that unemployment is the biggest problem facing our society today. Accepting this, it seems the most extraordinary contradiction that we so severely penalise the employment of this resource. Surely it is not sufficient to again articulate the problem. I think it would have been very helpful if Culliton had prioritised the actions required to bring about real change and break out of the present slow rate of development of our industrial sector, the development of which has to be the only basis for real growth in the economy and wealth of the nation.

Should Culliton have come up with some alternative to fund the deficit created by such a reform of the taxation system? What about taxation of energy as part of an alternative strategy? It is a finite and scarce resource. Surely our taxation policy should be accounting for the efficient and selective utilisation of scarce resources while promoting the universal employment of those which are in plentiful supply, for example - labour.

What about the redeployment of the Social Welfare cost of unemployment to the subsidisation of real employment? Why does an employer suffer a penalty for employing one extra person when the Government incurs such a serious cost by maintaining that person in unemployment.

Is there any merit in redistributing the monies presently expended by FAS in paying trainees while acquiring skills which in most cases and in my experience are not generally relevant to the needs of industry towards a system of direct subvention for a programme of apprenticeships or on the job training.

These are only a few worthy points for further examination, but they surely indicate the possibilities of a much more pro-active approach to the problem than the mere repetition of all that we have heard before so many times.

The taxation system for the corporate sector, although many times more complex, is more like the curate's egg - good in spots.

One of the very positive things about it is the 10% Corporation Tax for manufacturing industry. This in our own case has been the single most important factor in the development of our business. It has enabled us to invest all our profits back into the Company and develop it to its optimum potential. Yet Culliton recommends the discontinuance of this important aspect of the present tax regime. Surely a more enlightened view would be the taxation of all distributions, but that any monies re-invested in the business would be subject to the present more helpful system.

In my experience the biggest obstacle to growth has been the accumulation of capital to re-invest in the business. It is also in my view the major reason why indigenous Irish concerns have difficulty in growing to any size of appreciable importance. There are a host of other tax anomalies which I feel Culliton could have more specifically referred to. Some of these are:

1. The preferential status of the Revenue in any winding up or examinership. When one adds to this status the penalties and interest which can magically be added to the base figure if you are an unsecured creditor, you can be certain that by the time the Revenue have completed the affairs there will be nothing left for you. Why should this situation exist? What inherent right should the Revenue have to rank ahead of a supplier? At the very least, the Revenue should rank equal with normal trade creditors;

2. Another example:

The many anomalies of the VAT system: In our own business we pay VAT

on the importation of raw materials at point of entry. In the case of Polymer resin, it can take up to 16 weeks to convert this raw material into bottles, finished stock, sales, and ultimately cash receipts. We are obliged to fund this working capital gap out of our own resources, yet if I was a supermarket operator, I would have collected the VAT and had it on deposit for up to 4 weeks before I would pass it on to the Revenue. Surely this is an anomaly which should be addressed, where a service industry has a very clear monetary advantage over a manufacturing industry;

3. The Revenue themselves act in a very autocratic fashion and generally are not answerable to anybody. Most people in business consider them to be a law unto themselves. In 1990, after receiving the normal approvals from the Revenue, we raised £2.5 million under the Research & Development Section 1986 Finance Act. The Revenue then refused to confirm their original approval and we were obliged to return the money to the investors. There was no recourse through the Courts or other Government channels. The consequences of this were a project which would have offered 30 jobs in rural Ireland could not go ahead. Surely this is not acceptable practice if we are to foster a climate for industrial development;
4. Phased reduction in free depreciation and, if the English model is to be followed, the abolition of capital allowances altogether is a concept which is also a negative influence on industrial development. Even though the advantage of capital allowances is somewhat dissipated by the 10% Corporation Tax, it acts as a disincentive to capital investment and as a consequence to the operating efficiency of the business. It also negates the value of leasing, which was a valuable source of competitive funds for industry.

There are many other unfair and unjust anomalies in the tax code and I would have liked to have seen these addressed in a more definite and selective way.

3. STATE AID POLICY AND ACCESS TO CAPITAL

Grant Aid in the past has been a very important part of the financial package for any new project. The fact that a project was grant-aided also added credibility and made that particular project easier to finance. Undoubtedly the grant was the kick start for many of the successful projects that are prospering today. I would agree that the agencies should be more selective with greater post-development monitoring to ensure that agreed targets are achieved and return on the investment optimised, but I believe to move from a straight grant to equity participation is not the correct strategy.

The system from my experience has worked well and should be further refined rather than changed. I think the concept of having one agency looking after indigenous industry and a separate agency encouraging foreign investment is an excellent one.

I also agree with Culliton that resources should be switched from foreign investment to indigenous industry. Indigenous industry is soundly planted in Ireland and when adversity appears, it is obliged to adapt to the changed circumstances or fail. The same stark choice does not have to be confronted by a multinational who can fold his tent and depart to more favourable climes.

Access to capital is also an important aspect of industrial development and a seriously inhibiting factor in the early development years of any enterprise. Culliton identifies this problem, but offers very little in the way of constructive solutions. Indeed, one of the few incentives given to banks to lend to the productive sector has been Section 84 Loans. We can recognise that the system was misused and taken advantage of in a way which was not the original intention of the legislators, but surely the legislation should have been reformed to ensure that capital continued to be available to the manufacturing productive sector at a reasonable cost. Culliton recommends the complete abolition of Section 84. I believe this is a negative and retrograde step.

The Business Expansion Scheme legislation was also a means of getting capital at a reasonable cost. The legislation was relaxed to allow some very dubious projects to avail of its advantages. Eventually it was so abused that little or no investment was going into manufacturing industry, but helped develop a thriving business in night clubs and hotels which was a long way distant from the original objective. Again, instead of the scheme being reformed to effectively deliver capital where it was most beneficial, from the 5th of April next the scheme is to be abandoned.

4. SIZE OF DOMESTIC MARKET AND COST OF DEVELOPING AND DELIVERING TO FOREIGN MARKETS

The development of any indigenous enterprise starts in the home market. Unfortunately, the size of the home market - 3.5 million in the Republic with a further 1.5 million in Northern Ireland - is a limiting factor in the development of any manufacturing industry to a point where economies of scale allow it to compete internationally with international corporations.

Consequently, if any enterprise is going to reach this critical mass to successfully compete against international competition, whether that be on the home or export markets, it is necessary to look to world markets to achieve

the scale of operations essential to this level of efficiency.

Ireland is on the western seaboard of Europe and soon will be the only island nation in Europe. Despite some inherent advantages, this surely must place Ireland at a serious disadvantage to the rest of Europe.

Culliton quite rightly identifies that emphasis should be placed on the development of industries "where Ireland has a marketing advantage based on low cost production and a clean environmentally-friendly image", but this cannot be the whole picture and even these product areas have to be marketed and transported abroad. Identifying low cost of production as an advantage can only be short-term if the whole purpose of developing Irish indigenous industry is to create wealth and improve the living standards of our inhabitants. Even the most initial investigation requires travel and all exports are penalised by relatively expensive freight charges before the products ever reach their market. This whole area has not been addressed by Culliton and, although some passing comments may be evident, no suggestions are made as to how such a serious disadvantage may be redressed.

5. CONCLUSION

The Culliton report is a very comprehensive document in establishing where industrial development is at this time. I believe this was an exercise that needed to be done. However, many of its recommendations are but a very small adjustment to the status quo.

I do not see this as a radical document. I don't believe it has identified any major single issue which fundamentally changes the picture of under-utilised resources and a perpetually generating class of unemployed and perhaps unemployable people. It is a document which, for a great part of the Irish nation, offers little hope. I doubt if many residents of our most deprived housing estates have heard of Culliton and I doubt very much if the product of any of its findings or suggestions will in any way touch the lives of that class of people.

Indigenous Irish industry has the ability to make a greater contribution than is allotted to it in this report. Where attention should be focused is a serious reform of the many impositions of Government and its bureaucracy that creates such a large minefield for anyone who might be so bold as to think he has a contribution to make to the development of our indigenous base.

Perhaps we need less Government - not more - and if some of the more blatant disincentives to enterprise were removed, we would not need the plethora of

supports and semi-state agencies that are around us today.

Although foreign investment has a major role to play in the development of our economy, its merits should not be promoted to the exclusion of development of our indigenous industry. One of the many lessons that should have been learned over the past 20/30 years is that most of these enterprises have no real long-term interest in Ireland and if we are really going to establish ourselves as a strong independent economy within Europe and in the rest of the developed world, then we must rely on our own resources and have the confidence in our own genius and talent to compete and beat the best that other apparently more developed economies can offer.

So what are the implications for indigenous Irish industry from the Culliton report. I believe - very few, and the ones that will most probably be acted upon are:

1. Contraction of straight grants;
2. Abolition of Section 84 and other sources of competitive finance;
3. Institutional reform.

These will all probably tend to have a negative impact on the indigenous sector, but most probably the report will not be acted upon and we will have a repetition of the same exercise in another 5/10 years.