



# The White House Conference for Trade and Investment in Ireland

Northern Ireland and the border counties of Ireland

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## IV. DOING BUSINESS IN NORTHERN IRELAND AND THE BORDER COUNTIES/COMPARATIVE ADVANTAGES: WHY AND HOW

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**DOING BUSINESS IN NORTHERN IRELAND AND  
THE BORDER COUNTIES:  
EXECUTIVE SUMMARY**

Northern Ireland and the Border Counties offer six key comparative advantages for U.S. companies:

- o Market access to the massive \$7.3 trillion, 360 million person single European market, with quick and easy transportation and communication links;*
- o Labor Supply -- Highly motivated, skilled, and available labor;*
- o Labor Relations -- Among the best in Europe. In fact, Northern Ireland had the fewest days lost per 1,000 employees in all of Europe!*
- o Low Cost of Living;*
- o Investment Incentives; and*
- o Language -- English-speaking labor and management avoid expensive language difficulties for U.S. firms.*

*Northern Ireland and the border counties of Ireland are thus suitable sites for U.S. firms that want to invest and establish facilities to serve other markets from a manufacturing and/or sales bases. Transportation and communications links between the region and the rest of Europe are well established, with a population base of more than 360 million no more than several hours flying away.*

*U.S. companies that have been operating in the area for decades are highly positive regarding their experiences there. They all cite two factors as key reasons for being in the region:*

- 1) A large pool of well-educated, adaptable labor for all skill levels;  
and*
- 2) Excellent programs of grants and assistance from local or regional bodies.*

*Direct investment is but one option available to U.S. firms seeking commercial links with either part of the region. There are excellent opportunities for strategic alliances, technology transfer, contract manufacturing, licensing, etc.*

## NORTHERN IRELAND: COMPARATIVE ADVANTAGES

Northern Ireland's companies have full and open access to the Single European Market, with approximately 360 million consumers and combined GDP of approximately \$7.3 trillion. As much as 70 percent of Northern Ireland firms already sell into EU markets, with another 20 percent active in other European, North American, and Asian markets. Northern Ireland's ability to compete with other locations in the European Union is a function of a highly motivated and skilled workforce, excellent labor relations, and a hospitable investment environment.

***Labor: Available and Motivated*** -- Northern Ireland has an ample supply of well-educated and well-trained labor. In 1993, 88.1 percent of 16 year-olds were in school compared with 76.7 percent for the UK as a whole. A higher percentage of both males (20 percent) and females (25.3 percent) in Northern Ireland obtain three or more advanced level high school diplomas than in the UK.

The projected demographic increase in the working age population, together with high levels of unemployment, combine to ensure a good supply of labor for companies seeking to expand their business in the huge and growing European market. The cost of labor is significantly below European averages for comparable skill levels and ensures a well qualified pool of labor for new enterprises at competitive rates. The motivation of labor helps maintain the low incidence of strikes and other labor stoppages in Northern Ireland. Manufacturing sector competitiveness has improved sharply since the mid-1980s largely as a result of improvements in labor productivity and lower wage costs.

***Competitive Labor Costs*** -- Wages in manufacturing industry have always been lower in Northern Ireland than in Great Britain. At the start of the 1980's, the gap was relatively small after a period of wage convergence in the 1960's and 1970's. However, the wage gap widened during the 1980's until in March 1993 the average cost of industrial labor in Northern Ireland was only 86 percent of the average in Great Britain.

Putting these rates in a wider international context, the average hourly cost of industrial labor was \$10.68 in Northern Ireland. This was 36 percent lower than the United States at \$16.73, 34 percent lower than France at \$16.23, and 58 percent lower than Germany at \$25.71. The labor cost in the Republic of Ireland was only slightly lower than in Northern Ireland, at \$10.22.

Days of work lost due to work stoppages have fallen dramatically in the United Kingdom in recent times, and currently only one half of one percent of the work force is involved in such activities. Moreover, most disputes have been in the public sector, and have resulted primarily from fears of job losses.

Northern Ireland's record surpasses even that of the UK as a whole. In 1991, there were 32 days of work lost per 1,000 employees compared with 34 days in the UK, 40 in the United States, 452 in Germany and 463 in Spain. It is with considerable justification that Northern Ireland can claim to have the best labor relations in Europe. These data are supported by the experience of U.S. firms that have been there, including those who have been producing in Northern Ireland for 20 years or more.

***Business Environment*** -- As part of the United Kingdom, Northern Ireland benefits from many of the competitive advantages which flow from the structure of that country's economy. Traditionally, the United Kingdom has been a trading nation, and as such has developed a large and sophisticated services sector in support of its trade activities. There are no impediments to foreign ownership, nor restrictions to the free-flow of capital. Its regulatory environment is pragmatic, featuring a deregulatory trend consistent with the government's intention to provide a stable and unfettered commercial environment in which private enterprise can flourish.

For the last decade and a half, the UK Government has striven to expose the economy to the invigorating influence of market forces and to encourage freer movement of capital and labor. It has pursued a policy to reduce the role of the state in the economy, to cut public spending, and to revive UK industry. Specific measures taken include tax reform, abolition of capital controls, privatization of national industries, deregulation of financial services, telecommunications and transportation, and labor law reform. These steps have generated significant structural changes in the economy and increased its efficiency. Soaring productivity in recent years has resulted in a rapid decline in real terms of unit labor costs, and has put the United Kingdom in the low-cost lead among the Group of Seven leading industrialized countries.

The UK's government perceives its primary role as developing a stable macroeconomic environment, with low inflation and sound public finances as the cornerstone, as well as ensuring a physical infrastructure adequate to sustain business development. A high degree of labor flexibility is also seen as essential to national competitiveness.

***Minimal Intervention*** -- The Social Chapter of the Treaty on European Union (Maastricht Treaty) codifies, across the European Union, issues of employees' rights in the work place, equitable wages, communal bargaining and employee consultation. By securing for the United Kingdom the right to "opt-out" of the Social Chapter, the government wishes to sustain the climate of minimal intervention in labor markets which has prevailed during its administration. It hopes to facilitate job-creation and maintain the UK's position as a competitively attractive destination for foreign investment. It is generally supported in this endeavor by the private sector, which fears the increased business costs experienced on the Continent by conformance to the Social Chapter's provisions.

**Tax Rates** -- The government seeks to minimize the tax burden on both individuals and corporations, and direct tax rates are among the lowest in the EU. The highest personal tax rate of 40 percent is applicable to only the top 6 percent of income earners. The majority fall within the lower 25 percent tax rate, known as the base rate. It is the stated intention of the current government to reduce the base rate to 20 percent, when economic conditions permit.

The full corporate tax rate of 33 percent applies to companies with profits in excess of 1.25 million pounds sterling. Partial tax relief is available to firms with profits of less than 250,000 pounds sterling to bring their effective tax rate to 25 percent. Profits between these limits are taxed on a formula basis which results in a total tax rate between 25 and 33 percent.

**Low Housing Costs** -- While the cost of living for most goods and services except housing tends to be slightly higher in Northern Ireland than in much of the UK, the inflation rate tends to be the same. Since, unlike Great Britain, Northern Ireland did not experience significant house price inflation in the 1980s, the cost of housing remained substantially lower. A comparative study, including the cost of housing, showed the cost of living in Northern Ireland to be 16.7 percent lower than the UK average in 1993.

**Incentives** -- Due to the special difficulties generated by the troubles, Northern Ireland has benefitted from some special incentive programs financed by the UK government. These incentives, administered by the Industrial Development Board and Local Enterprise Development Unit, can account for up to 50 percent of capital costs. In addition, Northern Ireland has been accorded the Objective 1 priority in the allocation of EU structural funds aimed at reducing regional imbalances within the EU. These grants cover such areas as industrial and agricultural development, transportation, human resources and training, and tourism.

**Language: Everyone understands English!** -- Finally, not to be underestimated is the fact that everyone speaks English. This can be of inestimable value in working with customers, managers, and the labor force. Training guides and technical manuals do not have to be translated, U.S. technical personnel do not have to undergo language training to explain company procedures and technical factors. Customers understand exactly what sales personnel are saying, etc.

**Air Transport** -- Northern Ireland maintains 3 airports: Belfast International (the main airport), Belfast City, and City of Derry. Belfast International Airport operates 14 flights daily between Belfast and London and regular daily flights to other UK regional airports, as well as 21 flights per week to Amsterdam. Belfast City Airport, only a few minutes from the City Center, is the UK's fastest growing airport and currently ranks 14th in the UK airports listings in volume of passenger traffic. It offers short haul flights to 19 UK destinations. City of Derry Airport serves the North West of the Province with services to London, Manchester,

Glasgow. Derry is also a stop on services from Donegal in the Republic to Birmingham and Edinburgh.

Multinational corporations such as Apple, Intel, Dell, Ericsson, NEC, Motorola, IBM, DEC, Hewlett Packard, OKI, Compaq, Mitsubishi and Alps are located within a 320 km. (200 mile) radius of Northern Ireland - within 1 hour's flying time, or allowing surface delivery in as little as 3 hours, and same-day delivery to any point in the UK and the Republic of Ireland.

***Sea transport*** -- Northern Ireland has four modern and fully equipped seaports at Belfast, Londonderry, Larne and Warrenpoint. Belfast is the principal freight port handling over half of all cargo through its modern roll-on/roll-off facilities. Three new terminals have been built in the last five years. Larne Harbor offers 4 roll-on/roll-off berths, 3 of which have twin level ramps capable of handling wide and heavy loads up to 180 tons. The port of Londonderry has been extensively developed with a modern new facility at Lisahally, completed in February 1993.

Transport is highly competitive and available in several modes. First class road networks, over 250 scheduled sailings and 700 scheduled flights, surface freight anywhere in Western Europe within 48 hours, and air freight to Europe within 12 hours, worldwide within 36 hours, are all options.

## THE BORDER COUNTIES OF THE REPUBLIC OF IRELAND: COMPARATIVE ADVANTAGES

The principal reasons for international firms establishing operations in Ireland are the attractive corporate tax rate, the well educated and multi-lingual labor force, modern telecommunications infrastructure, low unit costs, grant aid, and good operating environment. All of these features enable firms, particularly U.S. companies, to achieve the highest return on investment in Europe.

As a small open economy which is heavily dependent on international trade and investment, Ireland has instituted government policies formulated to facilitate trade and inward direct investment. Ireland's dependence on international trade is highlighted by the fact that its foreign trade (summing both exports and imports) is larger than its GDP! (By comparison, U.S. exports plus imports are only 17 percent of U.S. GDP.)

In addition to the attractive investment incentives available to firms that invest anywhere in Ireland, each of the six border counties has its own advantages to offer investors. Strengths in food industries and manufacturing, access to major highways, sea and air ports, the presence of skilled workers and proximity to technical training centers are advantages found in the border counties.

***Investment Incentives*** -- The Irish Government welcomes inward investment and offers a number of investment incentives and reliefs to international companies. These incentives include an attractive 10 percent corporate tax rate for qualifying industries guaranteed through the year 2010, cash grant aid, customs duty reliefs, patent income exemption, and tax-exempt securities. The types of cash grant aid available include capital, training, rent subsidy, research & development, employment, and technology acquisition grants. Each grant package is tailored to the needs and requirements of each project.

***Labor Relations*** -- U.S. firms are the largest investors in the Republic of Ireland, and have found the investment climate, including labor costs and labor relations, to be among the best in the European Union. This is one reason why the concentration of U.S. company production in Ireland is three times as high as in the rest of the European Union!

***Air Transport*** -- The four international airports located in the Republic ensure door-to-door delivery of goods and services to the European marketplace within a maximum 24 hour timeframe. Also, the regional airports at Sligo and Carrickfin provide firms in the border counties with a link to this international network in an expeditious manner.

***Sea Transport*** -- Firms located in the border counties have access to both the Northern Ireland seaports of Larne, Derry, Belfast and Warrenpoint, as well as

the ports of Drogheda, and Dublin in the Republic. In the past few years, about 20 percent of Irish exports are shipped via the three Northern Ireland ports because of competitive rates, shorter sea crossings, high frequency sailings, and excellent port shipping facilities.

**Road Network** -- Continued upgrading of the road infrastructure in the border counties will improve multimodal connections, and reduce journey times to all the major seaports and airports in the Republic of Ireland and Northern Ireland. This will greatly facilitate the movement of goods and services from the border region to other parts of the island of Ireland or to the European marketplace with greater ease, speed and security.

**Telecommunications** -- As a result of a major telecommunications investment program in the 1980s, Ireland now has a highly modern telecommunications infrastructure. This infrastructure, with its advanced level of digitalization, automatic switching system, and fiber optic cabling infrastructure, allows the provision of state-of-the-art telecommunications services to the business community. The eventual extension of the Integrated Services Digital Network (ISDN) across the country will facilitate the growth of electronic commerce within the island and enable the entire region to offset its island status on the periphery of Europe. Complementing this modern telecommunications infrastructure is the cost competitive commercial rate environment compared with its European neighbors. All these features have contributed to the growth of the teleservices sector in Ireland and the significant potential the region offers U.S. firms.

**Language: Everyone understands English!** -- As noted above, the fact that everyone speaks English cannot be underestimated. A common language can be of inestimable value when working with customers, managers, and the labor force. Additional language-related investment costs are not incurred because training guides and technical manuals do not have to be translated. Employees understand exactly what U.S. managers and other personnel are saying, etc.

### **Individual Border Counties' Advantages**

Each of the investment incentives provided by the Irish Government is available to companies establishing operations in the border counties. The comparative advantages of the individual border counties of the Republic of Ireland are:

#### **Cavan:**

Cavan is primarily an agricultural county. The agri-business sector is well organized with the main primary activities consisting of dairying, cattle rearing, hog rearing, sheep farming, mushroom production and poultry production. Agricultural processing includes plants engaged in milk, meat, and broiler processing. Each of the main agricultural activities is capable of considerable



expansion. Cavan benefits from its proximity to the shipping ports of Dublin and Warrenpoint, Northern Ireland. The county has a well diversified industrial base.

#### Donegal:

The main comparative advantages of Donegal reflect its expertise in the textiles, clothing, and fish production sectors. The strong industrial base in these sectors has led to the development of significant technology and skills that are available to prospective investors. The presence of a regional telecommunications and information technology center is providing a driving force to high-tech development locally. This center offers another incentive to interested investors. The county's natural amenities also offer excellent opportunities in the tourism sector.

#### Leitrim:

The principal manufacturing enterprises in Leitrim are centered around the food processing, textiles and clothing, engineering, plastics, and timber related sectors. The timber sector is expected to experience good growth as a result of increased timber supply from forests in the region. The county's close proximity to Sligo and Donegal and their respective expertise in the engineering and clothing sectors, together with their two regional technical colleges and business innovation centers, ensure a consistent supply of a well educated and trained labor force in these sectors. Forbairt, the Irish Government's small business assistance agency, is also seeking to apply the concept of teleworking to the region to capitalize on the nation's excellent telecommunications infrastructure.

#### Louth:

The comparative advantages of Louth are based on its capital, rather than labor, intensive industry. Major manufacturing sectors are metals and engineering, clothing, footwear, leather, food, drink, and tobacco. The presence of international firms in the metals engineering sector ensures the adoption of world class manufacturing standards in local plants. The county's location on the Dublin-Belfast economic corridor, its proximity to the major seaports and airports in Northern Ireland and the Republic of Ireland, and the planned investments in its road transportation infrastructure offer additional comparative advantages.

### Monaghan:

The major economic activity in Monaghan is agriculture. The county's agri-business base provides the most significant area of production and employment. For example, Monaghan is now the principal mushroom producing county in Ireland. The contract growing system, centralized packaging and processing, maintenance of high standards of hygiene and quality control on farms, and aggressive marketing techniques are features of this development. Food production and processing provide the main source of employment in the county, accounting for over 60 percent of employment. The emphasis in recent times has been on diversification and movement away from a largely commodity orientation to a concentration on marketing. Monaghan also has a long tradition of furniture and wood products manufacturing.

### Sligo:

The major sectors are metals and engineering, food, and timber and wood products. The strong indigenous toolmaking industry and its inherent technology and skill base has helped to attract companies in sectors such as plastics processing, injection molding, and rubber-based industries. Two added advantages are its regional technical college and business innovation center which have enabled Sligo attain a strong reputation in toolmaking. Other advantages of the county from an investment perspective are its regional airport, its rail links to the rest of the Republic of Ireland, and its good road transportation network. The county's major natural resources in the food, marine, and forestry industries offer potential for the development of processing industries in these sectors.

## FOREIGN DIRECT INVESTMENT

### Northern Ireland

Overseas investment is vital to economic development in Northern Ireland. In the past 8 years industrial investment has totalled more than \$2.4 billion in Northern Ireland with 180 overseas companies, employing 46,500 workers. Included among these are the 40 U.S. companies employing almost 9,000 people, or almost 10 percent of total manufacturing workforce. These firms have made the United States the single most important source of internationally mobile investment for Northern Ireland.

The UK Government's Industrial Development Board (IDB) is the government body with primary responsibility for securing inward investment into Northern Ireland. Specific advantages for potential investors in Northern Ireland include:

Duty and tariff free access to the vast European Union market.

- A young, well educated, adaptable, and motivated labor force.
- Excellent research facilities in its two universities closely allied with local industry.
- An English-speaking, pro-American business community.

Capital investment has been heavily subsidized in Northern Ireland for over 30 years. Northern Ireland has shared the structure of financial assistance to industry common to all assisted areas in the UK.

As a result of government financial assistance, investment in manufacturing has long been higher than in Great Britain as a whole. Since 1979, the average level of capital investment per employee has been 27 percent higher than in Great Britain. The advantage over Great Britain was greater in the early 1980s, when levels of government assistance in Northern Ireland amounted to almost 25 percent of value-added. Since then, the level of grants and subsidies has halved and the advantage in terms of investment has also diminished.

There are numerous additional incentives for inward investment in Northern Ireland, including those in the following specific categories:

**Capital:** Businesses that set up internationally mobile projects in high unemployment areas can receive up to 50 percent cash grants for buildings, machinery, and equipment.

**Revenue:** Businesses can receive employment grants related to the number of newly-created jobs when incurring start-up costs. This incentive is designed to provide new projects with inflow of revenue during the build-up period.

Interest relief grants which reduce interest on loans from non-government sources are available for up to 7 years (3 years at a broadly commercial rate followed by 4 years at 3 percent) to the business community.

Factory rent grants of up to 100 percent of rental costs for up to 5 years are available.

Company development program grants of up to 50 percent of total net training and development costs, including wage costs, fees, and travel, are available. Grants to attract top quality management are also available.

Product and Process Development grants of up to 50 percent towards labor and material costs, with a maximum total single project grant of 250,000 pounds sterling, are available. Certain consultancy and design costs may also be eligible.

Marketing Development grants of 40 percent of approved costs up to a maximum of 180,000 pounds sterling (with an annual maximum of 60,000 pounds sterling per year) are available. This is to help companies develop a strategic approach to their marketing planning and implementation.

**Taxes:** Depreciation allowances on capital expenditures, including the total value of IDB grant received (up to 45 percent), are available. Expenditures can be written off at a rate of 25 percent per year (declining balance) for machinery and equipment, and 4 percent per year (straight line) for buildings.

Industrial de-rating incentives of 100 percent for manufacturing (i.e., no property taxes) are also available.

**Finance:** The provision of government loans may be considered in certain circumstances. Such loans will relate to the total capital cost of the project, including working capital, and can include an interest-free period. Adequate security is required.

## Border Counties

The attractiveness of Ireland for U.S. firms to develop international marketing strategies is underlined by the successful experience of the 400 U.S. firms located in the country. In addition, the presence of 33 U.S. firms based in the border counties highlights the potential of the region as a manufacturing and sales base. These firms are already utilizing Ireland and its myriad of financial incentives and other advantages to access and prosper from the lucrative European market. According to U.S. Department of Commerce statistics, the annual return on U.S. investment in Ireland in 1992 was 25.8 percent -- the highest in Europe.

These 400 U.S. firms encompass a wide cross-section of industry sectors including electronics, chemicals and pharmaceuticals, medical products, computer software, and telecommunications. Their activities include manufacturing and assembly; localization of products to meet European requirements; distribution; and financial teleservices and telemarketing activities. These firms are capitalizing on the comparative advantages offered by Ireland in its geostrategic position as a gateway to the European marketplace.

The Industrial Development Agency (IDA) of Ireland is the government agency that solicits inward investment to the Republic of Ireland. The IDA markets Ireland as a location for manufacturing, software, telemarketing and financial services projects. The United States is the single largest foreign investor in Ireland, accounting for 37 percent of total foreign investment.

Ireland is the most profitable location in Europe with rates of return on investment of four times the EU average. The IDA promotes Ireland as a receptive base of operations within Europe as well as an ideal point of access to the lucrative EU market and offers a range of attractive incentives to investors, including:

- Maximum rate of corporation tax of 10 percent guaranteed until the year 2010 for manufacturing and qualifying service companies;
- Generous incentive grants towards the cost of fixed assets - building, plant and machinery;
- 100 percent non-repayable grants on agreed worker training programs; with these advantages the investor will maximize the return on investment, shorten the payback period and maximize profits which can be freely repatriated.

The commercial infrastructure is modern with countrywide industrial and business parks and information technology support. Frequent air and sea transport connections ensure door-to-door delivery to most EU destinations within 24 hours by air and within 48 hours by land.

Ireland has a very strong and extensive sub-supply sector which is focused on the needs of incoming projects. This linkage between original equipment manufacturers (OEMs) and the sub-contractor sector is well established and is based on competitive, reliable suppliers conforming to high standards. It ranges from complex tool design and production through components and packaging. Currently, \$1.4 billion is spent by overseas companies in Ireland on local sub-supply.

A high general level of education in Ireland offers a ready availability of productive, adaptable and educated labor to staff incoming projects from shop-floor operations through line and senior management. Graduate and technician level skills are plentiful and meet world class standards. The work force is highly productive, wage levels and social costs are competitive. Ireland's labor costs are low, averaging 50 percent to 65 percent of the European norm. This ready availability of young, computer literate, English speaking professionals and non-professionals constitutes Ireland's resource threshold for investors.

## STRATEGIC ALLIANCES AND LICENSING

### Northern Ireland

#### *Industrial Development Board (IDB)*

While the main focus of the IDB is on identifying greenfield inward investment opportunities, it also handles requests from overseas companies interested in establishing strategic alliances with suitable companies in Northern Ireland. Enquiries from overseas companies about possible joint ventures, research and development, technical transfer, licensing/franchising arrangements or other forms of strategic alliances should be directed in the first instance to IDB's overseas representatives who will pass the requests to the appropriate contact points in Northern Ireland.

#### *The Local Economic Development Unit (LEDU)*

LEDU strives to enhance the competitiveness of small businesses in Northern Ireland through implementing a Business Cooperation Program. This Program brings two partners into a mutually advantageous commercial venture.

LEDU works with companies to identify new products and processes required to enter new markets. It offers advice and information on licensing products, including assistance in drafting agreements and evaluating the license. In addition, LEDU provides assistance in approaching, visiting and negotiating with prospective partners, and guides new product development and market assessment. It facilitates networking to secure commercial intelligence, and arranges financial assistance to support businesses moving into co-operative ventures. LEDU has produced a step by step guide to "Business Co-operation and Licensing" which is available from LEDU's Business Co-operation Unit.

#### *The Overseas Partnership Program*

Funded by LEDU, the UK's International Development Agency (IDA), the International Fund for Ireland and INTERREGNUM, the Overseas Partnership Program seeks to find suitable partners in the United States for a group of 10 LEDU-selected and 10 IDA-selected companies.

Efforts focus on assisting the long-term growth of companies by identifying new products and new technologies, and providing market entry support. The goal is for participating companies to sign an agreement within 18 months, or to determine that the targeted market does not provide viable opportunities.

## Border Counties

While the Industrial Development Agency (IDA) of Ireland is responsible for attracting greenfield investment into Ireland, Forbairt, its tandem agency charged with the development of indigenous Irish industry, is involved in joint ventures, licensing, franchising, and technology transfer arrangements between U.S. and Irish firms.

In 1993 the Government of Ireland announced plans for a new industrial policy strategy directed at strengthening Ireland's indigenous industrial sectors in order to diversify and accelerate the employment base. A major part of Forbairt's efforts to facilitate the development of indigenous Irish industry is the fostering of research and development and the stimulation of innovation within Irish industry.

Preliminary findings from an Irish innovation survey conducted by the Evaluation and Statistics Unit of FORFAS (the state policy advisory and co-ordination board for industrial development in Ireland) indicate that R&D accounts for approximately one-third of Irish industry's innovation budget. The other major innovation-related activities are product design and trial production/training. Different groups (in terms of ownership, size and sector) pursue different priorities for the various innovation expenditures.

This survey also revealed that there is a considerable degree of linkage between innovators and the other relevant parties. For example;

- 1 in 3 innovators were involved in co-operation activities for R&D in 1992, primarily with customers, suppliers and universities;
- 4 in 10 innovators had acquired technology from outside the firm, most frequently in the form of purchases of equipment, procurement of licenses, and the hiring of skilled employees; and
- 1 in 6 innovators had transferred technology out of the firm in 1992, most frequently in the form of communication with other enterprises.

The national industrial development agencies have begun accepting applications from firms interested in applying for R&D funding under the new 'Measure 1' program. A commitment of 20 million Irish pounds (\$32 million) has been allotted in 1995 from the European Union (EU) structural funds for suitable projects, with the Irish firms required to provide matching funds. This program, previously known as 'Measure 6', is designed to increase the level of industrial research and development in Irish firms. The plan is open to both indigenous and foreign owned firms of all sizes, and there is no longer a minimum ceiling of 250,000 Irish pounds (\$400,000) on the projects that will be funded.



The costs which will be covered by the fund include salaries, overhead, travel, materials and consultancy fees. Firms which are not in a position to undertake research themselves can arrange for the work to be done by sub-contractors, including researchers in third-level colleges. The industrial sectors targeted by the new program are manufacturing and internationally traded services. Also, approved projects must have significant potential, important to the firm's strategic plans, and have a clear commercial value.

Under the pilot phase of the program which began in 1993, over 60 firms were funded for projects worth almost 60 million Irish pounds (\$96 million) in total.

The electrical/electronics and chemical/pharmaceutical sectors constitute the highest share of the R&D market.

Licensing, or technology transfer, is another suitable strategy for companies in Ireland, especially those in the food and engineering sector who are seeking to expand their business through the acquisition of new products.

Universities and third-level educational institutions, comprising some 70,000 students, work in close association with the commercial sector and have highly modern facilities dedicated to industrial research and development.

## FRANCHISING

### Northern Ireland

*In Northern Ireland, and throughout the United Kingdom generally, sales of products or services through franchised outlets have grown exponentially. The value of goods and services sold through franchises grew by 500 percent from 1984 to 1993, and is expected to triple in value yet again by the end of the decade. Throughout the United Kingdom there are an estimated 250,000 people working in 24,000 franchised businesses. Specific figures for Northern Ireland are unavailable.*

The United Kingdom is exceptionally receptive to American franchisors, particularly in food services and retailing. The UK is United States' largest trading partner in Europe. The common language and similar cultural and business customs generally make the United Kingdom and Northern Ireland a logical first choice and an ideal base for franchise expansion into Europe.

A principal advantage for new U.S. entrants into the Northern Ireland market is the number and generally good reputation of U.S. franchise enterprises already present. Frequent exposure to U.S. franchises has generated positive feelings about American brand name products and services which has made their acceptance in these overseas markets even easier. The UK is also America's largest source of tourists, and many returning British vacationers have brought back an appreciation for the service and value-for-money which they experienced with franchise operations in America.

McDonalds, Burger King, Pizza Hut and Kentucky Fried Chicken are omnipresent in the UK's shopping malls, main streets, highways, railroad stations and airports. Others, such as Domino's Pizza, 7-Eleven, TGIF, Dunkin Donuts, TCBY, Kwik-Copy, Subway, Ben & Jerry's, Decorating Den, Dyno Rod, I Can't Believe It's Yogurt, Mail Boxes Etc., are expanding towards national coverage.

This expansion of U.S. franchises has often been at the expense of small indigenous retailers unable or unwilling to match their levels of organization and marketing, customer service, cleanliness and value. In many cases, smaller UK firms have been slow to respond to changing patterns in consumer lifestyles which, to a large extent, have been similar both in the United States and the UK. Generally, if a franchising idea has proved successful in the United States, it has an excellent chance in the UK and Northern Ireland, particularly among the young.

Factors which will continue to drive the growth of franchising in Northern Ireland include the expected overall improvement in the economy both as a result of the peace process and from the upturn in the economic cycle; increasing consumer

confidence; shifting demographics, such as the growing number of retirees, and the increase in the number of women working outside the home. Northern Ireland's youthful population is especially receptive to U.S. franchising concepts.

A permanent ceasefire holds out the prospect of very significant growth in tourism in Northern Ireland, putting strains on the current tourism infrastructure. Franchise operations which cater to tourists would have exceptionally good prospects.

There are several large UK-owned food service and hospitality corporations which are potentially very competitive. Through their substantial investments in the United States, some of these are the ultimate parent of American franchisors. For example, Grand Metropolitan owns Burger King. However, many of these large corporations have occasionally found it more effective to act as franchisees in the UK rather than as direct competitors, attesting to the cachet attached to a successful U.S. brand name.

Franchising, as a relatively new and relatively low-risk method of doing business, has the potential to become a significant factor in the Northern Ireland market. Even during the recent economic downturn, the franchise sector in general experienced positive growth and significantly outperformed the economy as a whole. The availability of a pool of relatively inexpensive labor in Northern Ireland, coupled with a regulatory environment in the UK which encourages labor flexibility, help reduce the risk and costs in establishing a labor-intensive service franchise.

Best franchising prospects include food services, specialty store retailers, businesses catering to retirees and two wage-earner families, cleaning and repair services, day care services, home renovation and decoration, and leisure products and services.

### Border Counties

While the Irish market is limited in terms of the size of its population (3.5 million), it still is attractive from a franchising viewpoint because of the overall health and pattern of growth in the Irish economy. The Irish franchising industry experienced net growth of 39 percent between 1989 and 1992. At present, there are approximately 59 franchising systems operating about 390 units, employing 3,346 people and generating annual sales of approximately \$175 million in Ireland.

International systems dominate the local market with most systems operating as franchisee units controlled by UK-based master license holders. International franchisors utilize this approach to the Irish market because they consider the UK

and Irish markets as an integral area and their appointed master license holder usually obtains the territorial rights to the entire area.

Among the 45 international franchise systems, 13 are of U.S. origin, 28 are European firms (mostly UK), and three are from other nations. While U.S. systems only constitute a small portion of the Irish market, U.S. franchises, in particular fast food operations, actually have a significant market presence and are among the most successful enterprises.

Franchising opportunities exist in a wide range of market sectors where the extent of franchising has not been fully tapped. A related area of opportunity also exists in the establishment of manufacturing operations to supply European markets. According to the Irish Franchise Association, opportunities exist for U.S. franchisors to take advantage of current government incentives for basing operations in Ireland to supply their European franchise networks. This would not only accommodate requirements to have a European base but also presents other inducements such as lower costs, better skilled work force availability, attractive tax benefits, and ideal air/seaport and multi-modal transportation.



## **EXPORT MARKETS AND ASSISTANCE**

### **Northern Ireland**

The Northern Ireland Chamber of Commerce and Industry provides a wide range of services for member companies in Northern Ireland. It is part of the Chamber movement worldwide and has well developed contacts with similar bodies in Great Britain, Europe, North America, the Gulf States, and the Far East. Services include organizing outgoing trade missions and receiving inward missions from overseas, an export partners program, providing information on agents and distributors sought by companies overseas, assisting with export documentation, language advice and translations, and product and contact sourcing. The Chamber works closely with the Government's economic development agencies such as the Industrial Development Board (IDB) and the Training and Employment Agency.

While IDB is primarily focused on attracting inward investment, its Marketing Development Division manages an active trade facilitation program including participation in overseas missions. The IDB operates as the representative of the UK's Department of Trade and Industry, whose full range of Overseas Trade Services programs are available to assist Northern Ireland firms identify trading partners overseas.

Enhanced cooperation between government agencies and the business community can significantly increase the number and quality of strategic alliances, joint-venture partnerships, licensing arrangements, technology transfers, sales leads and agent/distributor agreements.

### **Border Counties**

The opportunities for the establishment of trade arrangements are unique in that Irish firms are very interested in representing U.S. companies both within the Irish market and in the larger European market. Indeed, several hundred U.S. firms are already represented by agents and distributors, or have direct sales, in Ireland. There is a longstanding U.S.-Ireland trading relationship which can be now be enhanced by the political reconciliation process in Northern Ireland.

As a small and open economy which is heavily dependent on trade, the introduction of products into the Irish market is uncomplicated. Standard international marketing and distribution practices are widely utilized and motivated U.S. firms with quality products will receive enthusiastic acceptance and positive assistance from their local representatives in achieving their goals and objectives for the Irish market. Since Ireland presents a geographically compact market, international firms customarily have one exclusive representative for the

entire country, but it is common for the representative to appoint sub-agents to cover certain sectors of the market if sales and profit margins warrant.

In order to introduce their products and services to the European marketplace, U.S. firms also should explore the possibility of locating an Irish agent/distributor with a knowledge of EU regulations and European distribution networks. A sales representative located in Ireland is in an ideal position to market a product throughout the European marketplace. Frequently, U.S. firms will also rely upon the Irish distributor to administer the labeling and packaging processes for the varied European advertising and end-user requirements.

Three kinds of distribution agreements are facilitated through Irish legislation:

1. Exclusive distributorships, where the distributor has the sole right to sell specified goods within a defined area;
2. Quasi-exclusive distributorships, where the distributor sells almost all the specified products within a prescribed area; and
3. Informal distributor arrangements under which the grantor imposes special obligations on the distributor and which would impact negatively the distributorship if the grantor terminated the agreement.

## WHERE TO GET INFORMATION AND ASSISTANCE

Industrial Development Agency of Ireland  
2 Grand Central Towers  
140 East 45th Street  
New York, NY 10017  
Phone: (212) 972-1000  
Fax: (212) 687-9839  
Contact: Mr. Eamonn Ryan, Director - North America

Industrial Development Board for Northern Ireland  
2201 Waukeegan Road  
Suite South 150  
Bannockburn, IL 60015  
Telephone: (708) 945-2908  
Fax: (708) 945-2988  
Contact: Mr. James Gray

Forbairt  
345 Park Avenue - 17th Floor  
New York, NY 10154  
Telephone: (212) 750-4300  
Fax: (212) 750-7357

The Irish Trade Board  
880 Third Avenue - 8th Floor  
New York, NY 10022  
Telephone: (212) 371-3600  
Fax: (212) 371-6398

Northern Ireland Tourist Board  
276 Fifth Avenue, Suite 500  
New York, NY  
Telephone: (212) 686-6250  
Fax: (212) 686-8061

Irish Tourist Board  
345 Park Avenue  
New York, NY 10154  
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Local Chambers of Commerce provide active support to the local business community in the pursuit of international business and products and, increasingly, the various Chambers in Northern Ireland and the Republic, particularly in the border counties, are forming consortia to enhance intra-border as well international trade. A number of Chambers publish listings of international firms seeking representation in Ireland in their monthly Chamber newsletters. In addition, all Chambers of Commerce in Ireland receive copies of each issue of the U.S. Department of Commerce's Commercial News USA.