

HOUSES OF THE OIREACHTAS

Volume 2

No. 13
Morning
No. 14
Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 13 Bealtaine 2015

Wednesday, 13 May 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

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DEPUTY CIARÁN LYNCH.

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Construction Industry Federation - Mr. Liam Kelleher and Mr. Tom Parlon

Chairman: As we have a quorum, the Joint Committee of Inquiry into the Banking Crisis is now in public session. Is that agreed? Agreed. And in doing so can I remind members and those in public Gallery to ensure that their mobile devices are switched off? We begin session one is a public hearing discussion with Mr. Tom Parlon, director general, and Mr. Liam Kelleher, former director general, of the Construction Industry Federation.

I would like to welcome everyone to the 25th public hearing of the Joint Committee of Inquiry into the Banking Crisis. Today we continue our hearings with the key players during the crisis. This morning we will hear from Mr. Tom Parlon, director general, and Mr. Liam Kelleher, former director general, of the Construction Industry Federation.

Tom Parlon has been the director general for the Construction Industry Federation since 2007. From 2002 to 2007 he was Minister for State at the Department of Finance with special responsibility for the OPW. Prior to this, he was president of the Irish Farmers Association. Mr. Liam Kelleher was the director general of the Construction Industry Federation from 1993 until his retirement in 2007. Prior to this, he worked with An Bord Tráchtála - previously Córas Tráchtála - and from 1977, holding the position of European director from 1989 to 1993. Mr. Parlon and Mr. Kelleher, you are both welcome before the inquiry this morning.

Before I hear from the witnesses, I wish to advise the witnesses that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You're directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. The utmost caution should be taken not to prejudice those proceedings in this regard. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, those ... these documents will be displayed on the screen to your left and right and members of the public and journalists are reminded that these documents are confidential and should not publish any of the documents so displayed.

The witnesses have been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the

inquiry. So to commence proceedings if I can ask the clerk to now administer the oath.

The following witnesses were sworn in by the Clerk to the Committee:

Mr. Tom Parlon, director general, Construction Industry Federation.

Mr. Liam Kelleher, former director general, Construction Industry Federation.

Chairman: Thank you. So if I can I invite Mr. Parlon and Mr. Kelleher to make your opening statement to the inquiry, please.

Mr. Liam Kelleher: Chairman, if I may proceed first, Chairman. Good morning, members of ... Chairman, members of the committee. My name is Liam Kelleher, I was director general of the federation from 1993 to 2007.

The CIF is the national and regional body for construction company, contractors, subcontractors and house builders in Ireland. It is recognised by Government and public bodies as the representative body for the Irish construction industry. This was reflected in its position as a social partner for the period. The federation is owned and run by its members via an executive body of 34 members appointed through the various branches and associations that comprise the CIF. All interests, sectoral and regional, are represented in the CIF's decision-making processes. The organisation has 13 branches and a number of sectoral associations that pursue the policy objectives of their own subsector. The five main industry groups are the Master Builders and Contractors Association, the Civil Engineering Contractors Association, the Mechanical and Electrical Contractors Associations, the Irish Home Builders Association and the Alliance of Specialist Contractors. That umbrella group, the details of the membership of it were given in the submission that I made. At its peak, the federation had in excess of 2,500 members, large, medium and small, whose priorities differed and where competition between groups and regions could be quite strenuous. The purpose of the federation is to provide services to its members and to represent its members.

For the period covered by this inquiry, 90% or more of the federation's resources were devoted to the provision of services to members. Some of these services were outlined in the submission and I am covering some of them briefly here. Industrial relations was a core service, including representation at various labour relations fora: the Labour Court, the Labour Relations Commission, the Employment Appeals Tribunal, as well as dealing with the trade unions and the industry at the time. Health and safety was a high priority for the federation during the period the joint committee is examining. The CIF worked with the Health and Safety Authority and the relevant trade unions to ensure compliance and competence in meeting and exceeding rising statutory safety standards. The CIF remains one of the key stakeholders and drivers of the construction safety partnership.

Briefly on each of the main groups, main contracting, building and civil engineering, the staff at the federation provide information, advice and assistance to the main contracting members of the federation in general building and civil engineering. They're the members of the federation who build the country's ports and airports, road and rail network, as well as hospitals, schools, public and private buildings. Specialist contracting, the mechanical and electrical specialists, as well as the other range of specialist contractors - that group represents a wide range of specialist subcontractors and both the main contractors and the mech. and elec. contractors have built the wide range of foreign direct investment projects which have established in Ireland over the past 25 years and have built an international reputation for expertise in

implementing high-technology projects on time and on budget. In housing and planning, that department addresses a wide range of issues affecting members, including technical, planning, economic and environmental matters.

Representation and lobbying - representation and lobbying has always been a key element of CIF's activity. As the members' representative body for the construction sector, it was our responsibility to represent members and the issues of the industry and to convey those to the media, Government and public bodies, national and local. The CIF's policy position was clearly set out, after my time in August 2012, which formalised what had always been the federation's approach in this area. We have always carried out our engagement with Government in an open manner. We believe transparency should be a requirement for political and public service ... Civil Service engagement, when it comes to public policy issues. We have always published our reports and policy papers and we have provided information about meetings and conversation ... and conversations concerning political and policy issues to our members. It's part of a two-way process that encourages a better understanding of the issues involved on both sides.

A variety of the Departments, in keeping with the subject matter of the inquiry, the variety of the Government Departments that we would have met included the Department of the Environment, which had responsibility for construction policy ... for publishing the review and outlook for the construction industry and for many of the issues with which the industry dealt. Our main contact with the Department of Finance would have been through the budgetary process where we made an annual pre-budgetary ... pre-budget submission, and usually met the Minister for Finance during that process or as part of that process. Our submission would normally focus on taxation policy, both industry-specific and general, and the public capital programme. Our interactions with the Department of the Taoiseach were generally around the macroeconomic position of the construction sector in Ireland and its place in the wider Irish economy. During the years of social partnership, CIF was involved in more extensive discussions with the Department on issues relating to the implementation of successive national development plans and on pay-related issues in specific national agreements. Striving to increase supply to meet demand across all subsectors of the industry was a recurrent theme of discussion. Other Departments are listed in my submission: the Departments of Education, Jobs, Enterprise, Transport, Communications, Health, all of which we had communications with in relation to various aspects either of policy or the implementation of specific public expenditure programmes.

Members of the Oireachtas - the CIF engages on a broad level with Members of the Oireachtas, nationally and regionally. This is done in an open manner, includes distribution of our annual pre-budget submission and other relevant information materials. We interact with local authorities where there are programmes of local road investment, implementation of water and waste treatment programmes, social housing investment and a variety of other issues. We would meet with An Bord Pleanála to discuss policy matters - generally once a year - planning policy, including timescales for decision making.

In relation to the banks, banking regulators and banking representatives, we had very few ... we had very few interactions with banking authorities such as the Central Bank prior to the economic downturn and that, of course, was in the period that I was there. Banking was just not a feature of CIF's activities pre-2008. Access to finance was not an issue for CIF members with the federation in that period. And I should also point out that the CIF, as an organisation, had no knowledge of the banking arrangements of any of its individual members or of how they financed their businesses or of their cash reserves or their borrowings.

Now, construction in Ireland has always been an important part of the Irish economy. It

has been a strong creator of jobs. It has enabled foreign direct investment and it has built those inward investment projects very quickly and the necessary infrastructure to go with them to enable the Irish economy and Irish society to grow. Pre-2000, during the national development plan of '94 to '99, I know that precedes this inquiry's period, but money was scarce and people were plentiful, but as the year 2000 approached, a major concern of the CIF was that as structural and cohesion funding from Europe was reduced that the public capital programme would be squeezed. That turned out to be largely an unnecessary fear and concerns developed in Government about the capacity of the industry to deliver on the new national development plan. One senior Government Minister spoke of bringing 2,000 immigrants into the State. The Taoiseach indicated his concern that the industry did not have the capacity to manage large projects and both Government and Opposition were calling on the industry to expand in order to deliver on NDP projects and to increase the supply of housing. There was a broad consensus across the political spectrum of the need ... and wider, of the need to build 500,000 plus new housing units in the following decade - that's from 2000 onwards. Every sector was striving to increase supply and obviously, the figures for the value of the construction industry ... they're contained in my submission and you can see that they grew rapidly. But in the period from 2000 onwards, I cannot overestimate the pressure I felt, and which I believe the industry was under, to expand its capacity to deliver building and civil engineering projects and to increase housing output. And right up to ... output increased incrementally each year but right up to the end of 2006, demand for housing continued very strongly and then when housing output commenced to fall rapidly in 2007, a supply adjusted rapidly to falling demand.

Previous evidence to this committee has stated the overwhelming consensus were that the over ... the essential pillars of the economy were sound. The prevailing wisdom was that if there was a property bubble, if one was to emerge, the country's still-high employment figures and positive Government finances would mitigate against a serious economic downturn. The prevailing view was that a soft landing would follow.

The figures for housing have been included in our submission and we issued our projections annually. We got them wrong on occasion, but the trend was pretty well upwards constantly through the years 2000. But they were ... our forecasts were based on feedback from members but also on reports from NESC, from the ESRI, from the Department of Finance, the Department of the Environment and wider sources. On the way up ... up to and including 2006, housing demand exceeded supply and the industry strove to meet that. Builders secured finance to purchase residentially zoned lands - and this is my final page, Chairman - secured planning permission, secured development finance to build the units, purchased secured mortgages to purchase the homes and builders built, and build, when and where they think they can sell. Errors made in the scale of building in some parts of the country are fully acknowledged by the industry but these were lands that had been zoned for housing, the financial system had financed land purchase and development and planning permission had been given for the developments. Taking the wider property investment perspective, the red ... the very ready availability of finance for development and property investment generally over the period was a prime driver of the demand for property, for investment property, in general, and, particularly, housing, new and second hand. The extent of lending to the broader property sector, to property syndicates and to individuals in Ireland and abroad accelerated to levels which, in hindsight, were unsustainable. The full scale of such lending for national and international property purchases only emerged with the establishment of NAMA.

To conclude, the level of construction activity reached unsustainable levels in the 2006-2007 period. Specifically, too many houses were being built; too much economic activity was

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dependent on the sector. Our mental focus as a federation, rightly or wrongly, was on the pressures that existed to deliver needed works in the building and civil engineering sectors and to meet the demand in the housing sector from a growing population. When decline in the housing sector commenced, we believed it was a necessary correction and that the industry would settle around the 50,000 units output per annum. We believed in the soft landing expectation from all Irish sources and a wide range of economic forecasts - the IMF, the EU and the OECD. We made mistakes; I made mistakes. Not listening to contrarians was one of them, believing too readily the benign economic forecasts of the ... and the soft landing, and I am sorry for that.

There were many other entities involved also, but we are a part ... we were a part of it, I was a part of it and, to that extent, Chairman, I apologise.

Chairman: Thank you very much, Mr. Kelleher. I call Mr. Parlon.

Mr. Tom Parlon: Thank you very much, Chairman, and good morning.

My name is Tom Parlon, and I have been director general of the construction industry since January 2008. Before then I spent two months working with Liam in preparation for his retirement. In my previous career, I was a farmer and was heavily involved in the Irish Farmers' Association serving as deputy president from '91 to '93 and from president ... and as president from '97 to 2001. I also had a brief political career, serving as a TD for Laois-Offaly from 2002 to 2007. And during my time here in Leinster House, I was also Minister of State in ... at the Department of Finance.

Liam has already outlined the nature of the CIF and the role and the services played by the federation. Ultimately, we exist to serve our members. It is the various construction companies employees and contractors who make up the Irish construction industry and who are the backbone of the CIF. Without them, there wouldn't be any federation.

Our role is to help our members on a broad industry-wide level and to provide support to them under many different headings. These include issue like ... issues like industrial relations, contracting representation and lobbying, health and safety as well as several other areas that Liam has already referred to. The nature of our membership is what gives CIF status in the Irish construction industry and the wider economy. We are also a means for the industry to come together and to have a strong united voice. It is also this responsibility that makes the CIF leaders for the construction industry in Ireland. Our job is not just to work with the industry, but to work on their behalf through good times and through bad times.

As this inquiry is all too aware, over the last ten years the construction industry went through some very, very good times and we've also had to endure just over seven years of decline. Obviously, it is the work of this Inquiry to find out the causes of the collapse of the economy as a whole, and I would like ... I would also encourage you to take a ... a close look at the plight suffered specifically by the construction industry during the course of your deliberations. Without wanting to pre-empt the findings of the committee, I am sure that these findings will suggest that the causes of what went wrong in the economy were complex and had many different dimensions. Certainly, one element that went wrong was the scale of the industry, how big it grew. It reached unsustainable levels of activity and was responsible for far too big a percentage of the Irish economy. As leaders of the industry, the CIF have to accept responsibility for the role we played in that growth. Everything we did and every position we adopted we did to help our sector and to help our members. Our various policy positions were driven by the views of our members as well as the prevailing economic and industry thinking at any particular mo-

ment in time. Yes we were being told by national and international experts, economists and the Government that there would be a soft landing but we have to take responsibility as well. However, time has shown that that approach was wrong and we're certainly sorry for that situation. We accept that we should have done more to encourage a more responsible level of activity, we should have taken greater heed of the warnings coming from the various sources even if they were going against the mainstream. We should have encouraged greater caution. If we knew of course back then what we know now we would do things entirely differently. There was a huge demand for houses and people needed some place to live, but looking back with perspective we can see that some of that demand was driven by speculation and the level of house building became unsustainable. We're sorry that this happened, we want to learn from the lessons that the economic collapse has taught us. We are acutely conscious that tens of thousands of people in the construction sector lost their jobs and we want to ensure nothing like this happens again. If the construction industry was one of the drivers of the boom it is certainly one of the major victims of the crash.

Practically from around the time I joined the CIF, the construction industry had entered into a period of decline and difficulty. I believe if you look at the Ulster Bank purchasing managers index that there were about 75 consecutive months of decline from May 2007 until September 2013. The impact on the sector was massive, equally the pain felt in the industry had huge implications for the rest of the economy.

Throughout the course of the downturn huge numbers of construction companies went out of business, at one point practically every week was bringing news of another significant company closing its doors. At times it seemed like the industry was losing hundreds of businesses every month, it was the case. It was a depressing and distressing time for our industry, for construction workers and their families. The impact was most keenly demonstrated in the unemployment figures. In the second quarter of 2007 there were 273,900 people directly employed in the industry according to the Central Statistics Office, by the first quarter of 2013 the number had fallen to 96,300. That's a loss of 177,600 jobs over the course of almost six years so, you know, the impact that had on families around the country in every town and every village had a major impact.

The turnaround had also been clear in Exchequer returns, the people who lost their jobs and the ones who didn't emigrate or seek job opportunities abroad went from paying income tax to receiving social welfare payment. We never want to see the construction industry suffer like this again. We want to see a sustainable construction industry operating at about 12% of GNP. This is a level that Forfás recently and the Government have both stated is appropriate for a country of our size with our demographic needs. Unfortunately now and I ... acknowledge that we went to 23% of the economy at one stage back in 2006, we're now a long, long way below that particular point but thankfully we're now starting to move in the right direction. However, as part of our final deliberations I would encourage the inquiry to at least note how badly the construction sector has suffered during the downturn.

As part of my appearance here, Chairman, before the committee, I was asked to talk about the establishment, the operation and the effectiveness of NAMA. I think it is fair to say that the industry was very worried about what NAMA was going to be and what it was going to involve when it was established. It was an entirely new entity that hadn't been established anywhere else on the globe, and you will see from the various reports that we provided to the inquiry that our members were expressing massive concern about the various provisions and the powers that would be provided to NAMA. We were also anxious that the wrong approach could mean

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even greater suffering for an already distressed construction industry. As we say in our submission to the inquiry, and I quote, “It was clear to the CIF that its members would be subject to an entirely different banking environment and the establishment of NAMA would have a profound effect on the ability of some members to support their ongoing businesses.”

I think a lot of our concerns came at that time from the scarcity of information about NAMA. There was a lot of speculation floating around and the problem was that no one fully understood just how NAMA would end up operating and how it would work with the construction industry. It is also fair to point out that the CIF wasn't alone in having concerns about NAMA prior to its establishment. I know that many Members of both Houses of the Oireachtas were particularly verbal in their opposition to NAMA. However, the extensive public debate on the establishment of this entity was a very good thing. It allowed concerns to be taken on board and, in some cases, assuaged before the enactment of legislation. The CIF believe that NAMA are doing a good job in handling a very difficult role. On a macro level, we fully acknowledge that NAMA are fulfilling their remit and seem to be achieving results. They are also one of the few sources of development capital in recent years for the industry, as they are funding the finalisation and the development of some of their assets to realise their full value. Again, this is important and has played a part in the recovery of the construction sector. While we may have expressed strong concerns in the past, I would like to think that the CIF and NAMA have since developed a more co-operative approach. As we have seen the progress being made by NAMA, the industry has come to realise that they are part of the solution. We respect what they are doing and a signal of that respect, I think, has been the invitation we have expended to senior members, both chairman and chief executive, to speak at our CIF annual conference for the last three years. In conclusion, Chairman, I'd like to thank the committee for the opportunity to talk about the various issues surrounding the economic downturn and the construction industry and I would hope in the course of our discussion that we're able to bring some greater understanding to the committee's deliberations. And I look forward-----

Chairman: Thank you very much, Mr. Parlon, and thank you, Mr. Kelleher. Deputy Eoghan Murphy, you have 15 minutes.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you to both of the witnesses. You're both very welcome. Mr. Parlon, just a couple of questions to clarify. Is membership of the CIF mandatory?

Mr. Tom Parlon: No, absolutely. It's entirely voluntary.

Deputy Eoghan Murphy: And is there a subscription fee for membership?

Mr. Tom Parlon: Is there a subscription fee?

Deputy Eoghan Murphy: Subscription fee.

Mr. Tom Parlon: Yes. Subscription ... subscription fee is based upon the turnover of the company.

Deputy Eoghan Murphy: Okay. And would you describe the CIF as a form of self regulator for the industry or is it a watchdog for its interests?

Mr. Tom Parlon: Well, no, I think it's just a representative group. We are involved with Government recently, and with the Department of Environment, in setting up ... which we've set up a voluntary register now that would register construction companies and would give

some credibility to the public when they are engaging a construction company that they are ... that they have experience, that they're tax compliant, that they have their health and safety standards, their insurance and all of their other elements, which unfortunately was not the case. Anybody and everybody ... choose to be builders and developers when things were going very, very well.

Deputy Eoghan Murphy: You both said in your opening statements that the level of activity-----

Mr. Tom Parlon: Let me just clarify. In terms of membership, we have our Dublin branch meeting, we have our associations and we have our regional branch meetings. And when somebody applies to be a member, it has to be passed by whatever ... either association or branch. So, you know, around a table of people attending a meeting ... a present ... an application is made by Tom Parlon Construction Ltd. and the members would have a discussion as to, you know, were they an upstanding company, did they have experience and so on. And that would've ... that was the method of clearing membership.

Deputy Eoghan Murphy: You both say in your opening statement that the level of activity in the construction industry reached unsustainable levels during the boom years. Mr. Kelleher, does the CIF bear responsibility for that?

Mr. Liam Kelleher: The CIF was one of the players in that scene. You've got to look at what was causing the ... the rise in construction activity. I said in my statement that the pressures that I felt were all to increase supply. And those pressures were coming right across the board. They were coming from a broad range of the political spectrum, all parties. The belief was that we were trying to implement ... trying to catch up on a substantial infrastructural deficit, which had accumulated over many decades. The economy was growing rapidly, population expanding, inward investment strong ... all of the indicators looking very good. So there was ... a very ambitious series of national development plans. You couple that then with the rising population and social changes which meant that what had been a very high number of people per house in Ireland by European standards was gradually moving towards the European norm. It hasn't reached it yet incidentally. But, overall, we bore ... we bear a responsibility but I think we were one of many players seeing an optimistic, expanding scenario for Ireland in which a wide number of people shared.

Deputy Eoghan Murphy: Thank you. Mr. Kelleher, did the CIF have in place a protocol for its members on financial contributions to political parties?

Mr. Liam Kelleher: I am not sure that we had a protocol. All I can say is, for the CIF itself, we never made a political contribution. I'm sure individual members may or may not have but that was a matter for individual members. Absolutely, the CIF was not involved in political contributions.

Deputy Eoghan Murphy: Was there a protocol at all for members on giving gifts to political parties or individual TDs?

Mr. Liam Kelleher: Not that I am aware of.

Deputy Eoghan Murphy: Why weren't there protocols in place?

Mr. Liam Kelleher: Why would there be protocols in place? Does any other representative body have protocols in place? Perhaps there should be protocols in place-----

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Deputy Eoghan Murphy: So perhaps-----

Mr. Liam Kelleher: Perhaps there are now.

Deputy Eoghan Murphy: Well, Mr. Parlon, are there protocols in place now-----

Mr. Tom Parlon: No.

Deputy Eoghan Murphy: -----in the CIF? No.

Mr. Tom Parlon: No, but I think that we all know now that all political donations are all, you know, in the public arena. They're on a register ... they're there for everyone to see but no, we didn't have any interference with members and still haven't had.

Deputy Eoghan Murphy: Mr. Kelleher, just to clarify, the CIF itself never donated to a political party or individuals.

Mr. Liam Kelleher: The CIF itself never donated to a political party.

Deputy Eoghan Murphy: What about giving gifts?

Mr. Liam Kelleher: To my knowledge, no, but if you want to try and specify a type of gift or something, I could relate that ... I could be more positive in my answer.

Deputy Eoghan Murphy: Well, you ... say corporate hospitality, tickets to a match, a bottle of wine, that kind of thing.

Mr. Liam Kelleher: Not in my time.

Deputy Eoghan Murphy: Mr. Parlon?

Mr. Tom Parlon: No, we don't have any ... we don't have any corporate hospitality within the CIF. Individual members may have had done but certainly not the CIF. We don't have any seats, we don't have any tickets, we don't have anything like that.

Deputy Eoghan Murphy: And the giving of gifts to TDs or political parties?

Mr. Tom Parlon: No. I think there was a case where a member sent out a bottle of drink at Christmas time to some people as a result of some people who had engaged with us recently in my time and in some cases they were returned.

Deputy Eoghan Murphy: That would've been a once-off?

Mr. Tom Parlon: Absolutely and learned from that experience as well.

Deputy Eoghan Murphy: But the CIF lobbies on behalf of its members?

Mr. Liam Kelleher: Yes it did. Yes.

Deputy Eoghan Murphy: Are members free to lobby independently of the CIF?

Mr. Liam Kelleher: Yes they are. Any company is free to lobby. I'm not talking just about the construction industry here but that's the nature of the ... that's an entitlement of any company.

Deputy Eoghan Murphy: Okay. And given the fact that lobbying is taking place by the

CIF and by members of the CIF, you still did not think it was appropriate to have a protocol in place in relation to the giving of political donations? Did the CIF ever draw a correlation between the giving of political donations or financial contributions and lobbying for certain changes to tax laws, for example?

Mr. Liam Kelleher: The activity of any individual member is in that area. It's a matter for a company. It's not a matter for the CIF. The CIF as an organisation was nowhere near that, you know ... was not in any way involved in giving donations. It just wasn't an issue for us as a membership organisation.

Deputy Eoghan Murphy: Okay. Have you seen Dr. Elaine Byrne's research? It's in the booklets that you were provided with. Page 106 to 107 in the first volume. And in it she states that between 1997 and 2007, 35% of Fianna Fáil's disclosed donations were from property and construction interests and 34% of the PDs' disclosed donations came from the property sector. Mr. Kelleher, why was your industry such a significant donor to the main political parties of government at the time?

Mr. Liam Kelleher: Sorry, I didn't catch that, I was looking-----

Deputy Eoghan Murphy: Why was your industry such a significant donor to the main political parties of government at the time?

Mr. Liam Kelleher: I don't know the answer. I can only answer for the organisation that I ran, and that was the organisation of the members ... the activities of individual members are a matter for the individual members. I can only take responsibility for the organisation that I was the director general of.

Deputy Eoghan Murphy: Would you be ... have been aware at the time of these donations taking place?

Mr. Liam Kelleher: No.

Deputy Eoghan Murphy: Mr. Parlon would you be aware as ... in your current role?

Mr. Tom Parlon: Well, certainly lately, there's been little or no donations and I think they haven't been sought but I think at that time, and I read Elaine's report and clearly it researched quite accurately through the contributions that were put on the record. It probably illustrated that that's where the money appeared to be at the time. Political parties clearly sought donations as well. I have some experience of running an election campaign and it's a very expensive business, so builders and developers and, you know ... we need to make a distinction here. The CIF represents the builders. We did have some builders-developers but there were a lot of big developers out there and investors and some recently very high-profile people that were ... that had no experience in building, that had invested over €1 billion in property around the world, and were part of the whole problem that we have. But certainly, you know, they were a target, I'm sure, for political parties as well. They probably had their own original ... you know, back in the day when I was running for election in 2002 in Laois-Offaly, you were either Fine Gael or you were Fianna Fáil. There wasn't too many other parties around at the time and people that would have been in business at that time were one way or the other, and I'm sure they were approached and made their contributions.

Deputy Eoghan Murphy: Mr. Kelleher, do you see any relationship between these donations, and the level of donations, and decisions taken by the Government that would favour the

industry by way of tax reliefs or incentives?

Mr. Liam Kelleher: No way, we would make our budget submission each year, we would put forward what we felt were ... having listened to members, and the members would have been involved in drawing up a budget submission, we would have made that submission, it would have covered taxation areas and taxation issues important to the members and we would have sought to fit in the submission with what we knew to be Government priorities of the day, be it the national spatial strategy or the investment in gateways or whatever it might be. And that would be the nature of it.

Deputy Eoghan Murphy: Let's look at your budget submission, then, from 2001, which is in the documentation as well. Where's the reference ... CIF, page 183. Mr. Bacon was before the committee, Mr. Kelleher, and in 2001 we saw that a number of measures designed by Mr. Bacon to calm the rising house prices were reversed by the Government. Stamp duty for investors was cut and the tax on second homes was eliminated and Mr. Bacon said this reversal of policy was too early. And an article in *The Irish Times* from 6 December 2001 by Colm Keena suggested that the decision on stamp duty was made by the then finance Minister, Charlie McCreevy, against official advice and after intensive lobbying by interested parties. And your budget documentation, on page 183, shows the CIF lobbying for these changes. You said earlier that you were under pressure to ... under pressure to increase output at the time, but is this not an example of the CIF lobbying to change what the Government intended to do in relation to the property sector?

Mr. Liam Kelleher: But, you know, at budget time there are 200 or 300 submissions from representative bodies, from interest groups, from trade unions ... that go into the Department of Finance, that go to the Minister for Finance. Every one of them is looking for some sort of, something extra in the budget, for their particular group, that's the nature of the democracy. The Department, the Minister, the officials, they weigh up the submissions, they have a view on policy. They develop policy and they implement budgetary policy.

Deputy Eoghan Murphy: And the evidence for the submission, where does it come from?

Mr. Liam Kelleher: The evidence of?

Deputy Eoghan Murphy: For the submission that you made in 2001 or any budget submission, where does the evidence come from for proposing those changes?

Mr. Liam Kelleher: Where we were seeking changes? I think you've got to think back to what the environment was like in the 2001-2002 period. I think I said earlier, and there's a piece of correspondence in the core documents, that I had with Minister McCreevy at the time, that we were concerned that, post-2000, there would be a squeezing of capital investment relative to current expenditure, after Structural and Cohesion Funds started to taper down. Then you had 9/11, I think you had foot and mouth disease around the same time, you certainly had a very sharp deterioration in global and Irish economic conditions for a period. It wasn't all a rollercoaster ride upwards. There were periods of softness, and drop. And inward investment, post 9/11, had dried up pretty significantly. So I would say the policy environment of that time was very different from when Peter Bacon had made his recommendations and that, you know, hopefully, and that's what we would have wished for, that the Government of the day, the Minister of the day, would have adjusted policy in this area to help the construction industry, yes.

Deputy Eoghan Murphy: Thank you. My time is limited so I've got to move on to an-

other area. Mr. Parlon, just in relation to NAMA, if I may, you stated in your opening statement that banking was not a feature of the CIF's activities pre-2008, and you commissioned a report then from the ... Lombard Street Research which was critical of NAMA, and this is in core document, page 7. Where did the funding for this report come from to commission this report?

Mr. Tom Parlon: We raised some extra funding ... I just ... probably, the impression, and this discussion has all been about house building and about developing. But that's quite a... it's a minuscule part, as you can imagine, of CIF now. It probably only makes up 5% of the total activity within CIF. At the peak in 1996 when we built ... or in 2006 rather, when we built over 90,000 houses, even then it was about half of the total of construction output. So, within the CIF, the main contractors, the electrical contractors, the other ... they would have a big input and probably a lot of concern that the focus, entirely, within CIF, was on house building and development, and ... and as a result of the ... the over-build in that area, bringing difficulties for the industry, for the country, and for workers, and so on ... so when concerns were raised, we ... the Irish House Builders ... the IH ... the Irish House Builders Association, you know, are a constituent organisation within the CIF ... they had their concerns in the lead-up to the establishment of NAMA. They sought the support of the CIF as the overall organisation and said: "Look it, we're majorly concerned here". We didn't invest in legal challenges or anything, we invested in a ... an external financial consultancy group from London, and we sought to raise funds amongst the builders themselves because it was fairly likely, when things were going downhill, that a main contractor that had no involvement and ... or wasn't going to have an involvement in NAMA ... so we sought an extra voluntary subscription from members.

Deputy Eoghan Murphy: Was a subcommittee set up within the CIF?

Mr. Tom Parlon: That's right, yes.

Deputy Eoghan Murphy: And it's purpose was to ... to what?

Mr. Tom Parlon: Well, I suppose it was to investigate what the likely implications of NAMA were going to be for the industry.

Deputy Eoghan Murphy: And there was a fee for being a part of the subcommittee to pay for the research.

Mr. Tom Parlon: No, it wasn't a fee, but we sought voluntary extra subscriptions to fund any expenses that committee might have.

Deputy Eoghan Murphy: What level of subscription?

Mr. Tom Parlon: I think we sought either €1,000 or €2,000.

Deputy Eoghan Murphy: Per member of the committee.

Mr. Tom Parlon: No. Per ... I think we sent out quite a lot of members ... or letters, as you can imagine. And we raised, I think, about €100,000, which was near enough to what the report cost us.

Chairman: I'll move it on now Deputy, if you don't ask.

Deputy Eoghan Murphy: Okay.

Chairman: Okay. Staying with the same document, Mr. Parlon, if I can maybe just ... and

it refers to your opening statement as well. This report was commissioned by the CIF in 2010 from Lombard Street Research. It was quite critical of NAMA in 2010, and at the bottom end of the page there it says:

NAMA is not intended [as a bank] ... as ‘a ‘bad bank’ but as an asset manager. NAMA is therefore different from the Swedish Securum or the American Resolution Trust Corp[oration], both of which were clearly bad banks, not asset managers”.

And then in bold print it goes on to say:

By taking over good loans as well as bad, NAMA actually impairs the banking system’s potential recovery. This would be a departure from previous best practice as experienced in other countries [and] It would add to the work load and complexity of NAMA at a time when speed and efficiency are of the essence.

Would you please like to comment upon that this morning, given what you said in your opening statement, which would seem to be at-----

Mr. Tom Parlon: Well, certainly, we didn’t have the competencies within the CIF to examine an alternative to NAMA, and, clearly, the Government would have expended very substantial consultancy fees with ... originally with Dr. Peter Bacon, and with other experts, at massive expense to set up that new model. So we sought outside ... we got some advice, we decided upon Lombard Street finance, a London-based outfit. They came over, we gave them some terms of reference to look at NAMA, to see the particular model that was being laid out, how effective that might be, what the implications were going to have on the industry, and so on. They went along and did the report. As soon as we got the report, we looked at it ourselves. We immediately forwarded it on to the Minister for Finance, to his senior officials, and to the NAMA people at the time.

Chairman: The question I’d be putting to you though, Mr. Parlon, is ... and, as Deputy Murphy outlined, there was quite a significant time investment, energy investment, and financial investment into putting this report together. Does it actually hold up or not?

Mr. Tom Parlon: Well, look it, I don’t know what impact it had on ... obviously, there’s two sides to every story. The Government chose to go on a particular route. I know the Opposition at the time felt it wasn’t the right route to go, which would be ... wouldn’t be unusual at any particular time anyhow, but we felt that investing in some alternative point of view from an expert agency might be helpful, and, you know, we ... when NAMA was set up, we immediately said: “Well, they’re the only game in town”. We had a number of meetings where we invited in our developer/builders, who were going to be involved in NAMA, and both the chairman and the chief executive, and some other senior officials attended large meetings, and several meetings, to outline how NAMA was going to operate-----

Chairman: I’ll just press you on the point, if you don’t mind, Mr. Parlon. The conclusion of that report was one of an entirely different action. Do you believe on ... or do you have a view now, looking back on the conclusion of that report, whether it was the best, or maybe a better option was available?

Mr. Tom Parlon: Well, look it, obviously NAMA, as I’ve said and acknowledge, NAMA has got on with their business and worked. We even ... as part of our deal with Lombard Street, we looked for a further follow-up report a year on. That was still critical of how NAMA were going.

Chairman: A year later, yes?

Mr. Tom Parlon: A year later.

Chairman: Okay.

Mr. Tom Parlon: In terms of the progress and the speed of the progress they were making which, I think, we were all a bit concerned and it's not to diminish the major job that NAMA had to do at that stage in terms of getting in all the assets first of all, before they began to manage them.

Chairman: Right, thank you. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you, Chair. You're very welcome, Mr. Parlon and Mr. Kelleher. Can I just start by asking in relation to what you both have said was an unsustainable level of construction ... and just to recap on some of the figures in 2006, about 270,000 direct jobs, construction accounted for over 25% of GNP, stamp duty receipts were €3.7 billion, which were 8% of total tax and 93,000 houses completed in 2006. At your own executive board, and I suppose it relates more to your time, Mr. Kelleher, were there any vigorous discussions at the executive board of the CIF? Were there any contrarian views, that, "Look, this may not be sustainable; we may not have a soft landing; this is going to head over the cliff? Were there any such discussions during your time?

Mr. Liam Kelleher: Deputy, no. The industry focus was very much on delivering a very high level of project activity at the time and that's not just housing, that's across the board in civil engineering, in major construction projects, in the inward investment projects. Even the soft landing thesis, if you like, only came on the scene in 2006-2007. Prior to then, it's incremental and when things happen incrementally, you're not, if you like, as aware of the cumulative impact that it's having. It's incremental and the belief was that there was a substantial infrastructural deficit, the belief was that with the population growing, with incomes growing, with inward investment, that it would continue. We knew it was high by European standards, we knew we were building, both in general and in housing, above European norms, but we believed that that was justified by the economic circumstances and we weren't inventing that belief. That was the general view of economists, of economic institutes, of Government at the time.

Deputy Michael McGrath: Can I ask if CIF took a view on the extent to which a relatively small number of builders and developers became so large and accounted for a massive proportion of overall bank borrowings? Was that underpinned by CIF's strategy? Was it to help to develop some very large players in the market? Was that your plan and your strategy?

Mr. Liam Kelleher: No, the CIF, if anything, was oriented the other way. It had, as I mentioned, up to 2,500 members at its peak, very diversified, both in the nature of what they did and in where they were located. And the views from Donegal to Kerry would have been on local issues and would have been of small firms striving to be a step larger. In fact, many of the largest companies that we know now had become the largest companies and the largest borrowers were not actively involved in the CIF. Their affairs were at some distance from the CIF itself and many of them ... some of them were not members of the CIF.

Deputy Michael McGrath: In response to Deputy Murphy, Mr. Parlon, you explained the membership fee structure, that it's based on turnover. Is that the case in ... across all classes of membership?

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Mr. Tom Parlon: Well, I think, house building was an exception and it's still we've introduced a new arrangement lately, but certainly we wouldn't have been aware of the scale of some of our members in terms of their turnover, now that it's become apparent. For normal construction firms, they send in their turnover figures from their accountants and that's the basis ... but the housing section would have been different. There would have been more of a flat rate applied to them.

Deputy Michael McGrath: Irrespective of size?

Mr. Tom Parlon: Irrespective of size, yes.

Deputy Michael McGrath: Even during the boom years?

Mr. Tom Parlon: Yes.

Deputy Michael McGrath: Yes, okay.

Mr. Tom Parlon: And I can tell you some of the bigger ones that may have paid a minimum membership were tight enough about it at the time.

Deputy Michael McGrath: And what other sources of income would the CIF have apart from membership fees?

Mr. Tom Parlon: The services that we give to our members in terms of health and safety training, in terms of giving courses and so on, that's absolutely entirely it.

Deputy Michael McGrath: What percentage of your overall income would be derived from membership fees?

Mr. Tom Parlon: It's probably ... at the moment it's about maybe 60% on subscriptions and 40% other. We have an office in Galway, an office in Cork and our office in Dublin. We downsized our staff very substantially. We have some of our space let at the minute, which brings in some income.

Deputy Michael McGrath: Okay. And during the mid-2000s, when a lot of the builders were very successful, had huge businesses, what would have been the largest membership fee-----

Mr. Liam Kelleher: The largest membership fee-----

Deputy Michael McGrath: -----for the CIF, approximately?

Mr. Liam Kelleher: -----would have been ... would have been €30,000 at the time.

Deputy Michael McGrath: And that would have been based on turnover?

Mr. Liam Kelleher: That would have been based on turnover and it would have been paid only by a smallish number of large contracting firms.

Deputy Michael McGrath: Sure, okay. And, in terms of the basis for that, it would be an accountant's letter or would it be the actual accounts would be provided to the CIF?

Mr. Tom Parlon: Yes. And now ... like, with a lot of our firms now, not all of their construction is within the country, so it's in their Irish-based construction activity and that was always ... you send in your turnover figures and typically, you know, you might be working on a turnover

figure that's two or three years old and subscriptions weren't a problem until shortly after I took over, when the downturn started, and then all of a sudden we began to have our own income crisis and then we worked a lot closer on turnover figures and on being up to date and insisting on getting them and so on and insisting that the different subscription levels were up to scratch.

Deputy Michael McGrath: And, at the peak, how many firms, roughly, would have been paying in the region of €25,000, €30,000?

Mr. Tom Parlon: Well, the smallest ... the lowest member of our subscription is €810. So, it ranged - depending on your level of turnover - up to the €30,000 and €30,000, I think, was over €200 million turnover.

Mr. Liam Kelleher: Deputy, it would have been ten to 12 firms at the peak were paying at that level and then it was graduated down thereafter, depending on company size.

Deputy Michael McGrath: Sure. And in any sense were you very dependent on that income as an organisation or did you have a good spread overall in terms of your revenue base?

Mr. Liam Kelleher: Of membership?

Deputy Michael McGrath: Yes, were you-----

Mr. Liam Kelleher: Of the revenue base.

Deputy Michael McGrath: -----very dependent on the revenue from the largest members?

Mr. Liam Kelleher: No, no. There was a very broad base of membership around the country. The subscription income, in my time, at the peak, would have been more from subscriptions rather than from training programmes. The training programmes, when you ... were health and safety and were management services and upgrading management in the industry. That revenue would have been about 20% of the organisation in the mid-2000s and in many ways the costs of providing it were a substantial part of the revenue - when you take hotels into account, when you take lecturers into account ... lecturer's fees. And those training programmes were designed, as I say, to integrate in with the services we were providing to members.

Deputy Michael McGrath: Okay. Mr Parlon, you spoke about NAMA in your opening remarks and you used the term a while ago that they've done a very good job, in terms of the role that they have and the mandate that they have. Does that represent a change in thinking from CIF?

Mr. Tom Parlon: Well, obviously it was a bit like, I suppose, suck it and see. There were people who went in there and I think, to quote some Minister, they were hopelessly insolvent; who didn't have any other objection, but the banks handed over their loans, that were mainly based upon loans that were associated with property that had massively decreased in value and so on. So I think the bulk of the people in NAMA - all of them, practically - were as a result of property investments that the values had gone down and they'd overextended themselves.

So, you know, it took a long time and if we think back then, you know, it was sort of crisis mode for the construction industry. The period around when NAMA was being introduced, bank lending had stopped entirely, house building had practically stopped, there was nobody getting a mortgage or nobody ... the sentiment had turned totally in the opposite direction; nobody wanted to buy a house or know about property. So that was an extremely nervous time for the industry and, as I said earlier in my opening remarks, you know, the big issue was com-

panies going out of business, people being laid off and people emigrating all over the world to try and find jobs in construction after they'd learn very good skills here. So, it was a very, very nervous time and we didn't know ... and, like I said earlier, the issue was and probably still would be debated by a lot of experts that would be more expert than me about, you know, was NAMA's intervention and all their different actions, did it, you know ... when they started there was a big concern that there was going to be, you know, major sell-offs. And clearly if, in a weak market, you start selling off a massive lot of other stuff, it weakens the market further and the market will be in freefall. So, you know, the issue the industry have when we're ... if you attempt to build a house, and for a number of years after 2006 there was a carryover of stock, so when that can't be shifted, and there still, unfortunately, is a carryover in some of the regional towns and so on around the country, if the carryover can't be shifted you have little or no chance of starting building anything new. Very often the carryover is available at maybe half the price of the original construction. So that's the sort of timescale around our concerns about NAMA at that stage.

Deputy Michael McGrath: Sure. But overall now, given the experience that you've had over the last five or six years, do you think that it was the right model to take all of the good and bad loans, property-related loans, out of the banking system or do you believe it would have been better to leave them in the banks and let the banks work them out with the debtors?

Mr. Tom Parlon: Well, look it, personally-----

Deputy Michael McGrath: Yes?

Mr. Tom Parlon: -----and being as honest as I can be, and appreciating that I'm under oath-----

Deputy Michael McGrath: Yes?

Mr. Tom Parlon: -----I'm not in a position ... I believe that it's as good as it could have been. I'm not expert enough to say that there was another model, or the alternative ... and the alternative advice that we got from Lombard Street wouldn't indicate that-----

Deputy Michael McGrath: Okay.

Mr. Tom Parlon: ----- their model would have been any different.

Deputy Michael McGrath: And do you think NAMA has got the balance right in terms of working with debtors co-operatively and using enforcement powers where they have to, appointing a receiver and bringing companies down?

Mr. Tom Parlon: You know, there used to be speculation that NAMA was a bailout ... a bailout for developers. Certainly, my experience, it hasn't been. I think they've been fair with people but they've been very, very tough with people. There's people that just are literally working for a salary now that were major operators at one stage, but they are happy to use the expertise they have, and try and work out their situation, and they're responsible people, I think, that feel responsible for the situation they got themselves in. So, you know, I think it is positive, and if you look at some of the big projects that are happening now, and hopefully about to happen, they're happening as a result of NAMA choosing to invest, and when we particularly have a major deficit down around the docklands with regard to grade-A office space, I understand that NAMA are in the act of investing in a couple of very substantial projects there, and that's very positive.

Deputy Michael McGrath: So you don't support the allegation that was made at the time that NAMA was being set up that it would be a bailout for developers?

Mr. Tom Parlon: Absolutely not, no.

Deputy Michael McGrath: That's not your experience?

Mr. Tom Parlon: No.

Deputy Michael McGrath: Or your members'?

Mr. Tom Parlon: No, I ... certainly not. Like, people who went into NAMA, they were lucky to end up with their co-operation and only because they had substantial experience that they were able to bring some value to the particular asset that NAMA took over.

Deputy Michael McGrath: Okay. The fact that-----

Mr. Tom Parlon: If they didn't have, or if they were unco-operative, they were ... they were wiped.

Deputy Michael McGrath: Yes. The fact that ... of NAMA's disposals, about 90% of the assets have been bought by US private equity firms, what impact does that have on the construction industry in Ireland?

Mr. Tom Parlon: Well, look it, it's ... you know, they've been called vulture ... vulture capitalists and, you know, there are elements of those investors that trawl around economies that are in a difficult situation, find value, hold it for a while and then move on. Unfortunately for NAMA and for the rest of the country, there was nobody else to come in and buy at that stage. And, you know, on the one hand NAMA have been criticised for selling too soon in some circumstances. You know, the percentage - and I just don't remember it offhand - but the percentage of assets that NAMA inherited, a massive percentage of them were outside of this country altogether, borrowed from Irish banks. Some other markets have picked up a lot quicker ... and there will be NAMA assets, I'm sure, around some of our country towns, and, you know, I've heard them say a number of times that they're ... they're very much in the minority, that they won't be able to offload for a long, long time.

Deputy Michael McGrath: Finally, in the core booklet, Vol. 1, page 16, there is a reference to a meeting on 28 September 2009, where you, Mr. Parlon, represented the CIF at a meeting with the Department of Finance and the NTMA officials. And the meeting notes say that the "CIF support the appointment of a ... retired [property] industry professional to the Board ... [of NAMA and the Department of Finance and] NTMA officials indicated [that] CIF should [make] suggestions." Did that happen subsequently?

Mr. Tom Parlon: I don't think we were able to identify a ... such a ... such an animal at the time. I remember we made that point but I think when it came down to the crunch, we couldn't identify. I just ... to the best of my knowledge, I don't think we actually identified anybody.

Deputy Michael McGrath: Okay, thank you. Thanks, Chair.

Chairman: Thank you very much. Thank you, Deputy McGrath. If I can maybe just deal with one final item on NAMA there before we move on. And that is ... the question is, Mr. Parlon, that the NAMA chief executive advised this joint committee that one of the notable features of the acquired loan portfolio was that many debtor connections did not have the terms ... or

did not have the teams with the necessary skillsets to manage the loans effectively, and I'll just reference his quote there for you, if you don't mind, it's on page-----

Mr. Tom Parlon: Can you tell me where it is?

Chairman: It's ... I ... I'll see if I can put it up there for you, but it's actually on page 16 of Mr. McDonagh's opening statement. But I'll just take you through the sentiment of the comment-----

Mr. Tom Parlon: Yes.

Chairman: -----more than anything else, and to get your comment upon it, Mr. Parlon. It says that:

Some of the more professional debtor connections tended to focus on particular sectors in which they had developed an expertise; this was particularly the case for debtor connections whose main asset ... was outside of Ireland. However, one of the [more] ... notable features of the acquired loan portfolio was that many debtor connections had borrowed against a diverse range of assets. It was not unusual to find, when all of the loan information was collated, that a connection had [an] exposure [on] a number of jurisdictions and ... a range of sectors including office, retail and residential, in addition to ownership of one or more hotels as well as undeveloped land interests.

He then goes on to say: "After NAMA acquired the loans, it was not always apparent to us what the debtor's strategy might have been in assembling a range of assets which were so diverse by reference to sector and location; the obvious conclusion in some cases was that the compulsion to purchase more and more uncorrelated assets was entirely related to the almost unlimited availability of debt funding." If you could maybe ... if I could maybe to ask you, maybe, to comment on Mr. McDonagh's statement, but maybe to enlighten the committee as to whether the skill deficits that are indicated in terms of strategic management of assets was a problem at the time? And if that problem has subsequently been rectified by the CIF looking at its members now and saying, "Do we take a more strategic approach as to how we go about our business?"

Mr. Tom Parlon: Well, in terms of the diversity of properties and businesses that had been eventually put together when ... and I don't think there was an appreciation, certainly not within the CIF, or not with me personally, but I think even amongst individual banks of the exposure that individuals had until NAMA pulled them all together and said, "Mr. X, Jesus, he has 15 different loans from 15 different banks and accumulatively they're into the billion." Right? So that was a surprise, I think, but I think Brendan McDonagh did also say that when he examined the original portfolio he had, starting with the top, with the sort of billion-plus, there were a number of individuals up there who had been investing and who had been operating at a global level, and when you got down to about the hundred-million mark, which there was a lot, he said a lot of them were both syndicates and groups of individuals and individuals whose primary skillset wasn't in either building or in property development. So all sorts of choose to get into syndicates that time and, clearly, there was too much money, there's no question about it, it was ... my colleague made the point earlier that CIF didn't have any role in terms of dealing with banks because banks were giving out money very freely to both builders and developers at the time without ... so it wasn't an issue. And interest rates for a lot of the time were okay. Towards the time ... the handover from Liam to me, I think we had about eight successive interest rate increases, which began to bring a bit of concern.

Chairman: And today is the CIF more cognisant of this ... of a more sustainable and more structured business model in terms of development?

Mr. Tom Parlon: Well, I'd say if we are to examine our membership today, Chairman, our membership is entirely construction based. And it's the specialists and ... like, if you look at the Intels, the Corrib Gas, the Pfizers, and so on, you know, we have the specialist main contractors and subcontractors that have built and delivered those and, thankfully, that pipeline is still very good. And the core ... the big group of our ... both the people who are contributing to us and the people who are involved as presidents and vice presidents and so on, are very much in that sector.

Chairman: Okay. Thank you very much. Senator O'Keeffe.

Senator Susan O'Keeffe: Thanks, Chair.

Chairman: Six minutes.

Senator Susan O'Keeffe: In 2009 the CIF was critical of the NAMA Bill, stating that it failed to provide adequate redress for borrowers. We now know, of course, as you do, about the extent of non-performing loans, about interest roll-up and paper collateral against borrowings. So what do you make of those things? And how has your view changed? Because you've said, of course, now you've a much better relationship.

Mr. Tom Parlon: Yes.

Senator Susan O'Keeffe: You have a relationship.

Mr. Tom Parlon: Well, as ... again I say there was a vacuum there and some of our members expressed their concerns through the Irish House Builders Association. And that's ... my role as the director general, and would have been Liam's previously, when there is an issue in one of our associations they come up the line and say, "Look it, can we have the support of the CIF on this?" And so on. We set up a subcommittee that time, which was made up of people who had a large degree of both involvement and experience and they sort of raised the issues and, as a result, we invested in the external advice. But certainly-----

Senator Susan O'Keeffe: Yes, but given what you know about the non-performing loans and so on-----

Mr. Tom Parlon: -----it wouldn't have been our appreciation at all ... you know ... as to the extent of the exposure that was there. It wouldn't have been ... it wouldn't ... we wouldn't have had ... it was probably quite shocking when we eventually discovered when NAMA took over the loans the degree of ... of discounting they had to do with the individual banks in terms of the ... the-----

Senator Susan O'Keeffe: So is it fair ... so are you saying that the CIF was shocked by the extent of non-performing loans and the interest roll-up?

Mr. Tom Parlon: Yes, I think, ultimately, when NAMA sort of ... agreed the discounting they would have to do on the individual loans ... like it was ... it was quite shocking. But, on the other hand I suppose it reflected ... and this is the issue ... if I was asked, you know, what could I have done after I took up to slow down ... like, it's construction and particularly, housing construction ... is like the big liner that we talk about. It's moving along very slowly and it's very difficult to stop it.

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By the time that you acquire the lands, by the time that you get the zoning, that you get the planning permission and then get the finance and then get the people on site and start building it and eventually have to sell it. Like ... unfortunately, a lot of people had bought the land just when the turnover came, at maximum price. And that left them extremely exposed because those lands are ... you'd be lucky to get agricultural price for a lot of them still ... the ones that are outside the greater Dublin area.

Senator Susan O'Keeffe: Mr. Kelleher, in your tenure, what percentage roughly of the whole, sort of, property construction business people operating did the CIF represent? Did you represent 20% of the operators in the field or 90%? Just roughly, even.

Mr. Liam Kelleher: Something in between-----

Senator Susan O'Keeffe: Yes, that's ... that's all ... I'm just ... but ... but the public at large would ... would see the CIF as speaking for the industry, even though you didn't represent everybody?

Mr. Liam Kelleher: Yes, that's true. We were the representative body but, as Tom Parlon said earlier, it's an entirely voluntary thing. Nobody had to join and some choose not to. And it was ... it was a federation of contractors and subcontractors and house builders. That, I would absolutely stress.

Senator Susan O'Keeffe: How close do you believe in your time, Mr. Kelleher, that the CIF and or its members ... how close were they to the Fianna Fáil party?

Mr. Liam Kelleher: I can only speak for the CIF.

Senator Susan O'Keeffe: You can't speak for the members at all?

Mr. Liam Kelleher: I can't no, no. I can only speak for the CIF and say we treated all parties equally. We treated every party or every Member of the Oireachtas with whom we had contact equally-----

Senator Susan O'Keeffe: But, as you stood and watched your own members and you could see what was going on, you were not obviously blind to what was happening in the market. Would you have an observation as to whether there was a closeness between some of your members, other perhaps people in the ... in the business who were not members ... were to that political party? Do you have any observation?

Mr. Liam Kelleher: There were members who were close to Fianna Fáil, there were members who were close to Fine Gael-----

Senator Susan O'Keeffe: And that's all you would say about that? There were members who were close? That's your-----

Mr. Liam Kelleher: Well, that's ... you know ... I can really only speak for the federation, not for the individual members. Any individual member would have his or her own political affiliations or none.

Senator Susan O'Keeffe: How, Mr. Parlon ... how useful was it to the CIF that you yourself had been a Minister for State at the Department of Finance and that you had also had responsibilities for the OPW? Because I think you said yourself in a ... in a ... an interview that ... "I'm in and out of the Dáil every other day ... any chance I get everybody does it".

Chairman: Senator-----

Senator Susan O’Keeffe: The ... it’s a quote from the *Irish Independent*. I can give you the reference.

Mr. Tom Parlon: Well ... there’s no doubt knowing how government works, or having an understanding of how government works is certainly a help. And I’m sure any ... sort of ... public affairs consultant would say that as well when they are out, sort of, looking for business. But I certainly believe ... and I had just lost my seat at the time in 2007 ... I’m not sure if that’s an experience if that any of you around the table have but it’s, sort of, a bit sobering, anyhow. And I was approached about this job. It had been apparently advertised quite substantially earlier. I didn’t ... it passed over my head. I was too busy trying to ... to win an election.

Senator Susan O’Keeffe: Did you have to interview for it, Mr. Parlon or-----

Mr. Tom Parlon: Of course, absolutely ... a very rigorous interview process. But I felt at the time that my attraction to the CIF was that I had a long-term experience in being involved in a representative organisation in the IFA and had been a president of that and it’s ... you know ... there’s still ... there were individuals within the CIF that felt the IFA’s mode of action by marching up the streets and making a big fuss and so on was a hell of a lot better than ... than Mr. Kelleher’s previous campaign who was very diplomatic about how he did his business but that was just a view. And that’s my understanding and that’s my belief and I’m saying that very truthfully that my attraction for the job was my involvement. I have no doubt that having the experience of being in government and so on was a help ... but it was my previous organisational experience.

Senator Susan O’Keeffe: Can I close by asking-----

Chairman: One last question, Senator-----

Senator Susan O’Keeffe: Can I close by asking ... particularly Mr. Parlon on why so much of your actual formal submission to the ... to the ... to this inquiry is actually drawn from the CIF’s website rather than ... it doesn’t appear ... it’s not a reflection of your story or your involvement? It doesn’t seem to me much of the content of it is actually available on your website. Why is that?

Mr. Tom Parlon: Well, I think the message I’m trying to get across in the statement was ... in terms of CIF and we are here, both of us, because of our roles in CIF during that particular time ... and you’re trying to get as much information in terms of coming to your conclusions. that CIF, while the big focus here is about development-building and the impact that that had and building 93,000 houses in 2006, the impact that that had on the economy ... the CIF as an organisation is way bigger and broader than that. Every element of society depend on construction for ... whether it be this room here or the ... sound system or the video system or whatever-----

Senator Susan O’Keeffe: Sure, but we were hoping for your submission, Mr. Parlon, as opposed to, if you like, what we can get on the website, which, in fairness, is available to everybody, including ourselves. I’m just puzzled why you ... why there isn’t, if you like, why there isn’t more information what was going on, particularly in relation to the lines of inquiry.

Chairman: -----then I’m moving on-----

Mr. Tom Parlon: Well, I certainly attempted to give an indication in my statement of my experience and my work in CIF over those periods and I think that's what I've done and done very truthfully.

Senator Susan O'Keeffe: Thank you.

Chairman: Deputy Kieran O'Donnell. Deputy, you have six minutes.

Deputy Kieran O'Donnell: Thank you, Chairman. I welcome Mr. Parlon and Mr. Kelleher. Do you have any comment to make on the fact that the ghost estates appear to be concentrated very much with low areas ... areas with low population densities in, we'll say, Longford, Leitrim and Roscommon ... and a survey done by ... a report done by the National Institute for Regional and Social Analysis and NUI Maynooth in 2010 stated that for both Leitrim and Longford that if based on, we'll say, the rate of growth normally ... the normal rate of growth in ... in households between ... in the ten years leading up to 2006 ... based on the number of houses that were built by ... over the three period from '06 to '09 ... 6,500 houses were built in Leitrim and Longford alone that would take ten years to fill the ... fill the ... to fill those houses based on housing stock they had? And if you could just indicate ... it was during your time, Mr. Kelleher ... did you lobby for the tax incentive schemes, particularly the rural incentive scheme along the Shannon?

Chairman: There's two different questions there now. One relates to the ghost estates and the other one deals with the taxes ... tax break incentives. If you could maybe deal with both of them.

Mr. Liam Kelleher: Which one would you like me to-----

Chairman: The-----

Deputy Kieran O'Donnell: The ... I think they are interrelated.

Mr. Liam Kelleher: The ghost estates ... the tax incentives ... in our budget submissions in that period, we would have ... we would have integrated our suggestions, our proposals with Government strategy at the time ... with the national spatial strategy, with the gateways, with the completion of the inter-urban motorway network ... with ... with what we would have seen as the necessary infrastructure.

I'm not sure, to be honest, if we specifically included ... we wouldn't have excluded the ... the ... that area from ... we wouldn't have said, "Drop those incentives". But I don't think we highlighted them and I know we did highlight the need to integrate incentives with the implementation of the national spatial strategy and of the gate ... particularly of the eight gateway towns and cities that were identified.

Deputy Kieran O'Donnell: In, we'll say, looking at the tax incentives ... and, Mr. Parlon, you were Minister for State in the Department for Finance with responsibility for the OPW between '02 and '07 and, Mr. Kelleher, during that period you would have been director general of the Construction Industry Federation. And over that time period in ... in December 2002 ... the Planning and Development (Amendment) Act came in, Mr. Parlon, which effectively allowed developers to negotiate out of that Part V ... the social and affordable contribution. Subsequently, in the Finance Act 2004, all the tax incentives, which were due to have finished by the end of '04, were extended to July '06. Subsequently, in the Finance Act 2006, they were further extended right up to July 2008. So the questions are for both. Mr. Kelleher, did you lobby the

Department of Finance and Government for those deadlines to be extended? And, Mr. Parlon, were you lobbied by the CIF in your role as Minister for State in the Department of Finance on these particular issues and what view did you take in terms of ... which, clearly, these ... you literally had tax incentives being extended for an eight ... for a four-year period during your tenure at Ministry of finance-----

Chairman: There's a multiplicity of questions there now, Deputy, and I need to afford appropriate time to people to answer them, so if I can ask you to deal explicitly with the ghost estate issue, and the-----

Deputy Kieran O'Donnell: Chairman, I've already dealt with that.

Chairman: And then the tax breaks issue that we are on as well - to the both of you. Okay.

Mr. Liam Kelleher: Chair, am I in order to move on from the ghost estates issue and to refer to the incentives? Yes, we would have sought the extension of those incentives; it would have been part of our budget submission-----

Deputy Kieran O'Donnell: Why?

Mr. Liam Kelleher: We'd have made the case for it. Why? Because our members would have been involved in implementing projects that were ... that were, if you like, benefitting from those incentives and they wished to see the projects covered by ... by the ... by an extended period. You've got to remember that in many cases planning permission takes time to be given and a pipeline of projects builds up. We would have looked for the extension of those projects because our members ... and, as a representative organisation, our members wished us to do so.

Deputy Kieran O'Donnell: Even though, Mr. Kelleher, during that time period from '04 to '08 the level of house completions were peaking at incredible rates and, clearly, were-----

Mr. Liam Kelleher: I said earlier that ... you know, everything happened incrementally. Each year there were increases. Each year the demand was very strong. I said also, looking back on it, had we known what we now know, we would have sought to temper things a little-----

Deputy Kieran O'Donnell: And, Mr. Parlon-----

Mr. Liam Kelleher: But, if I can continue ... it would have been very, very difficult to do so in a members' organisation where we are listening, or trying to listen, to what it is our members are saying to us-----

Deputy Kieran O'Donnell: So your members were looking for this?

Mr. Liam Kelleher: And to represent that on their behalf.

Chairman: Is that a question, Deputy, or is that a statement? Are you asking-----

Deputy Kieran O'Donnell: A minute of Mr. Parlon's time there please ... the question really was were member of your Construction Industry Federation, namely, developers, lobbying the CIF to look for the extension of the deadline dates for these tax incentives?

Mr. Liam Kelleher: I said earlier that most members of the federation are contractors and subcontractors and house builders, but, yes, house building and development overlap and, indeed, some contractors are part developers also-----

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Deputy Kieran O'Donnell: I suppose I am conscious, Mr. Kelleher, in the limited time I want to hear Mr. Parlon-----

Chairman: I am conscious that there's a question outstanding to Mr. McParland and them I'm going to wrap up.

Deputy Kieran O'Donnell: Mr. Parlon, in your time as Minister for State in the Department of Finance and the OPW, were you lobbied by the CIF and Mr. Kelleher for the extension of these timelines from up ... literally being extended for a four-year period from the end of December '04 right up to July '08 for all these tax incentive schemes that kept the construction sector going? Were you lobbied by the CIF and what was your view on those?

Mr. Tom Parlon: And, Deputy, I've, sort of, pre-empted this sort of question and I've striven to find any case where I was lobbied directly by CIF, and I can't. I would've been aware certainly of pressures coming on. I have a recollection, particularly with regard to hotels, where somebody had made a major investment, as Mr. Kelleher said-----

Deputy Kieran O'Donnell: Were you lobbied by anyone on these-----

Mr. Tom Parlon: I believe I was, yes.

Deputy Kieran O'Donnell: By whom?

Mr. Tom Parlon: I ... somebody-----

Deputy Kieran O'Donnell: Were you lobbied by developers?

Mr. Tom Parlon: Probably somebody representing developers from my constituency and I would have referred them to the senior Minister of either-----

Deputy Kieran O'Donnell: What view would you have taken, Mr. Parlon?

Mr. Tom Parlon: Well, I would have had sympathy with somebody who had already invested substantially in a site and in a build project, and if ... outside his own control, which, of course, anybody who would have ever lobbied anyone said: "It wasn't my fault it's delayed and if we don't get it over-----"

Deputy Kieran O'Donnell: Did the PDs and you, as Minister of State at the Department of Finance, support the extension deadline dates for these tax incentive schemes for literally a four-year period?

Mr. Tom Parlon: Not to my ... not to my knowledge.

Deputy Kieran O'Donnell: Okay, you did not support it?

Mr. Tom Parlon: Not to my knowledge.

Chairman: Deputy Joe Higgins, six minutes.

Deputy Joe Higgins: Mr. Parlon, you told the inquiry that you were headhunted by the Construction Industry Federation. Was the fact that Fianna Fáil and your party that you were a part of, and part of the Government ... was continuing on in office ... was that perceived to be a major advantage by the construction industry in lobbying terms and was that the reason why a farmer would be put in charge of the Construction Industry Federation?

Mr. Tom Parlon: Well, I don't know. Obviously, the powers that be in the CIF chose to hire me eventually. It was coincidental that I found myself redundant, I suppose, at the same period that Mr. Kelleher had announced he was about to retire or ... from the organisation. So I believe the position was widely advertised and a recruitment agency, you know, recruited, or rather interviewed a lot of people, and apparently it was quite after the event before a decision was taken that I got a phone call saying, "Look it, we understand you might have an interest in this job".

Deputy Joe Higgins: But do you think the fact that you would have an inside track to Government would be a big advantage in lobbying? Do you think that may or may not have been a consideration?

Mr. Tom Parlon: Well, I think the fact that I understood about how government works, or I had an understanding, was a help. But I know there was lots of suggestions afterwards saying that because I was involved in the OPW, and that the OPW would have been the contractor on ... or the client on behalf of the State, that I would have been able to impart some individual knowledge to members ... you know. I think it's important to point out that the members of CIF are ... you know, absolutely keen, vicious competitors with each other when a project goes up and it would be very important that the federation and its officers, would be very, very straight down the middle. And if I were to impart some personal knowledge, if I were to have some, to an individual member, I think it would've been my swan song.

Deputy Joe Higgins: Okay. Gentlemen, a Maynooth NUI study found in 2010 in a report, 620 ghost estates after the crash of the bubble. Does the Construction Industry Federation have a policy of what should be done with gold estates ... ghosts estates?

Mr. Tom Parlon: Well, since I remember the Maynooth, and I just know that that was back in March 2010 ... they did a figure. There was the urban environmental project in UCD suggested an even higher figure, and, the following February, the Department of the Environment said ... you know they talked about the ... Maynooth I think talked about 300,000 houses, eventually the Department said it was about 25,000 completed houses in the State ... new houses. But since then, the Department of the Environment, the CIF and a number of other stakeholders have been involved in a ... in a stakeholder group looking at the estates with the local authorities and so on ... and my understanding now is there's been massive progress in terms of either finishing out the parts that were viable, closing them down, putting in the services and so on and making life a bit more comfortable for the people that had the misfortune to invest in those particular estates.

Deputy Joe Higgins: Mr. Kelleher, could I ask yourself ... Mr. Frank Daly, chairman of NAMA, was very critical of the construction industry for non-compliance with regulatory standards, including fire safety standards. And we know there were some very high-profile issues with fire safety causing huge problems for the ordinary people who had bought mortgages, etc. When you were director general of the Construction Industry Federation, did your organisation, in any proactive way, take initiatives that your members were properly complying with building regulations, safety, fire safety, etc.?

Mr. Liam Kelleher: First of all, I should mention that a high-profile case was not constructed by a member of the Construction Industry Federation-----

Deputy Joe Higgins: No, there were a number of ... I wasn't referring to anyone in particular.

Mr. Liam Kelleher: There was one particular one that ... but ... I just mention that. No, the CIF would have no time for any construction activity that did not meet with the required statutory, safety and other performance. Fire safety as such ... I know the regime has changed now, our focus in that area would have been more on safety, on safety in construction and on ... on the steadily increasing, and correctly so, standards for safety on site and on project. I know that in more recent times that there has been a change in relation to building inspection. It wasn't ... it wasn't comprehensive at the time but that wasn't an issue ... that wasn't something that the CIF had a regulatory responsibility in relation to implementation of and ... but we regard it as absolutely unacceptable.

Deputy Joe Higgins: Roughly, what was your annual budget in the 2000s?

Mr. Liam Kelleher: It would have been of the order of €5 million or €6 million in total.

Deputy Joe Higgins: Yes, €5 million or €6 million. Mr. Alan Ahearne, in evidence to the inquiry, said, "In a study I wrote with ... former colleagues, which was published on the [United States] Federal Reserve's website in September 2005, we identified no fewer than 44 episodes of house price booms and busts in 18 advanced countries since 1970."

Chairman: Last question now, Deputy.

Deputy Joe Higgins: Yes. And there were other studies, late '90s, early 2000s, pointing to a well-recognised pattern of boom and then a disastrous crash. With the huge resources you had, and the capability for analysis and research, did you identify in any way the dangers that was happening with the blowing up of the bubble that was going on and what might follow from it?

Mr. Liam Kelleher: We did not have huge resources and, as I said earlier, 90% plus of the resources were devoted to the provision of services to members, which they were looking for, which they wanted, and which, you could say, they demanded. Now, the second half of it ... so we did not have a research capability of any depth. We had a single economist at the time. But you mentioned Mr. Alan Ahearne's research. It's ... you know, I've read the papers closely. I read them quickly probably at the time. They're very good. They stand up very well. I wish I had taken more ... paid more attention to it at the time. I'd say the same about Morgan's Kelly's articles. But the vast majority of prevailing opinion at the time was that it was ... that it could continue, that it was sustainable, that economic growth was strong. I'm recognising that ... and if there's a lesson I'd take out of all of this, if I had my time all over again, it is to listen more to contrarian views.

Chairman: Thank you. Senator Sean Barrett. Senator, six minutes.

Senator Sean D. Barrett: Thank you very much and welcome to our visitors this morning. The chairman of NAMA, when he was here on 22 April, he said that an unexpected cost to NAMA was incurred due to the remedial works that had to be carried out as a result of the poor construction with many of the building projects that went into NAMA. Does the federation have anything to do with that particular problem?

Mr. Tom Parlon: Are you addressing-----

Senator Sean D. Barrett: I think it was in your time, or Tom Parlon's-----

Mr. Tom Parlon: Yes. We have new building regulations now-----

Senator Sean D. Barrett: Yes.

Mr. Tom Parlon: -----that are obviously a lot more stricter and so on, particularly with regard to inspections. Unfortunately, at that time, as in banking and other areas, there was a high level of self-certification and professionals signed off on buildings ... that may have been, you know, employed by the builder and, perhaps, you know, they weren't as strict as they should have been. The new regulations now require that you've got to have an assigned certifier. The assigned certifier has to be an architect, a chartered engineer or a chartered surveyor and he has to sign off on the different elements, and he is obliged to be responsible for, and have insurance to cover, any sort of ... if he signs off on something that doesn't prove to be the case, be it the quality of the foundations, be it the insulation, be it the fire safety regulations or whatever. So I believe we have a very rigorous regulation in place now, and the CIF have supported the Department of the Environment all the way through in terms of bringing those regulations forward.

Senator Sean D. Barrett: Could we look, Chairman, at the core document on page 27, and it's a representation made by the CIF in relation to NAMA in 2009, and it says, "Verbal Representation[s on] ... Undertakings given by banks to borrowers must be enforceable against NAMA". Isn't that the opposite to what you've just been saying? You know, that we have to get this industry more professional, and we're saying, no, that NAMA should honour verbal agreements between banks and developers?

Mr. Tom Parlon: Well, I'm just picking up on that now. That is our own ... well, obviously this was a result of ... well, you know, I think it's apparent now that in terms of due diligence for loans and so on that there was major deficiencies in terms ... and that became apparent to NAMA as well when they took over loan packages from banks, they discovered that the actual due diligence was very poor, that in terms of complying with the different areas of ... so on, security were very lax, but clearly there were ... there was verbal representations given at the time as well. I'm not 100% sure of why that particular ... but obviously there was somebody on our group that made a point of that and that point was made to NAMA. I don't believe NAMA, you know, took it on board certainly.

Senator Sean D. Barrett: Thank you. We have estimates that since 2009, the fraction of a typical household disposable income needed to cover the cost of a newly built family home has gone from 25% to 40% and that in the same period, 2009 to 2014, the price of a three-bedroom semi-detached house rose by almost a third. You know, does the construction industry have a problem with, you know, the burdens it's imposing on people buying houses and borrowing excessively so to do?

Mr. Tom Parlon: Well, if we take now, the current price of a house to a first-time buyer, 40% of that house we would estimate, and has been sort of agreed by other commentators, goes directly to the Exchequer when you take in the VAT, the stamp duty ... like, it's important to realise ... and we've been making this point, you know, to Government, you know, all along, and we have always been for reduced stamp duty, and I know at one stage when Minister Cowen came in as Minister, he reduced stamp duty, he took off the liability for stamp duty for the first €125,000. It meant that somebody instead of paying, I think, about €25,000 for a house, paid about €15,000. And ... like, that's a cost ... like, whether it be stamp duty or VAT or local development contributions or whatever, it's ultimately the first-time buyer that ends up paying them. There was a sort of a notion previously that if you lumped all these costs up on the developer, you'd sort of ... he was going to pay, but ultimately it's the first-time buyer or the buyer of a house that pays. And currently VAT at ... is it 13% or 13.5%, you know, that when the ... if ... if I have a house built and ready to sell, the VAT is only payable as soon as I sign the contract to sell

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the house, and then 13.5% of a €300,000 house is quite a substantial amount of money that goes straight to the Exchequer. And there were times when we had our difficulties and nobody was buying houses and there was an overlap, that we were imploring the Government to incentivise the buying of those houses to release the VAT as an Exchequer sort of a benefit to them, so as it would give an opportunity for the industry to get started again. But there's no question about it, the Government ... the construction of houses in particular and ... over the years has been a major cash cow for different Governments.

Senator Sean D. Barrett: Thank you, Mr. Parlon. And just the last point ... and thank you, Chairman, on page 171 of the core document, we have the sentence, in your submission in 2005-----

Chairman: Please be brief now, Senator-----

Senator Sean D. Barrett: I will, thank you.

Chairman: -----because you're opening up another line of questioning here.

Senator Sean D. Barrett: Yes. Yes.

Chairman: I just want you to conclude with your questioning, not opening up a new line.

Senator Sean D. Barrett: Yes. "Taxation incentives may already exist", and you mention five categories-----

Mr. Tom Parlon: What paragraph are we on?

Senator Sean D. Barrett: Paragraph 5.

Mr. Tom Parlon: Yes.

Senator Sean D. Barrett: And then you describe five of those, and you say, "Where this is the case", that is, where you say, "Taxation incentives may already exist", they "should be retained and, where required, enhanced". Wasn't that inflationary to ... you know, in the market at the time, to ask for more of those incentives? Houses prices were rising rapidly, and it was eventually to bring down the entire country and cost over €100 billion to both the Irish and UK Governments. So was there not a note of irresponsibility or recklessness in that treatment of the tax incentives-----

Chairman: Or not.

Senator Sean D. Barrett: -----or not, as the case may be?

Mr. Tom Parlon: Well, that was before my time, Senator, maybe.

Senator Sean D. Barrett: So I'll direct it to Mr. Kelleher then, if I may.

Chairman: Quickly.

Mr. Liam Kelleher: Certainly, Senator. Yes, looking back on it now, not all of it reads ... you know, not all of it reads as one would wish it to read. But, again, you'd have to put it in the context of the time. In a variety of these cases - third level education buildings, student accommodation - the colleges were looking for the student accommodation to be continued and extended because they needed the facilities. In many cases, the economic benefit of ... the

economic benefit of the activity produced more benefit for the Exchequer than the tax foregone in extending the allowances, but, however, you know, they did go on - and that was a question asked earlier - longer than would have been ideal, and we were looking for that.

Chairman: Okay thank you.

Senator Sean D. Barrett: Thank you very much. Thank you, Chair.

Chairman: Senator Michael D'Arcy. Senator, you have six minutes.

Senator Michael D'Arcy: Thank you. Can I ask, Mr. Parlon, your views in relation to the construction standards today, are they sufficient?

Mr. Tom Parlon: Yes, I believe the new standards are ... are very, very good. I think the ... where they are adhered to, of course, and like, we always had reasonably good standards, and I admit there were some very, very poor examples of shoddy work when we were building massively and when a lot of people who didn't have the experience or the skills to manage such big projects. But I do believe that the current regulations are very, very good. They do add a cost, of course, which in a new tight situation is difficulty, and I know that the regulations that currently apply to all housing, there is political moves to remove them from once-off buildings, which we object to-----

Senator Michael D'Arcy: Can I ask you-----

Mr. Tom Parlon: And that is on a cost basis, it is not on a quality basis.

Senator Michael D'Arcy: : Yes, can I ask your view upon the costs? Is it worth the cost?

Mr. Tom Parlon: Well, I said earlier that the people that are entitled to be assigned certifiers, currently are-----

Senator Michael D'Arcy: No, I am aware. But, are they worth the cost?

Mr. Tom Parlon: There is a limited group, and clearly if you restrict a service to a limited group, the costs are going to go up. We believe that the assigned certifiers, that there are lots of very, very good architectural technicians that have lots of experience and some other professionals as well, that could be included as assigned certifiers that would bring more competition and would reduce the cost.

Senator Michael D'Arcy: Okay. Mr. Kelleher, you stated previously about data that was available to the CIF. It sounds similar to what some people from the banking sector had said and I'm particularly quoting Mr. Dermot Gleeson, when he spoke about the demographics that AIB had about the children born in 1980 ... would be requiring dwellings at some stage in the noughties. Was there any conversation between CIF and banks and others in relation to ensuring that, this coterie of people would be housed and that your industry would ... would benefit from the construction of those ... that housing?

Mr. Liam Kelleher: Not between banks and the CIF, as an organisation, on that issue. But obviously the members of the CIF ... well we would have been aware of demographic forecasts from the CSO, from economic and demographic forecasts indeed from the ESRI or the Department of Finance and the Central Bank. So obviously there was ... there was, if you like, a shared pool of information that we would feed off, and that would drive our confidence that construction activity and housing activity should continue at a high level.

Senator Michael D’Arcy: And, again, to Mr. Kelleher, in evidence last week, Mr. Dan McLaughlin, chief economist with Bank of Ireland, outlined the fact that his view was that it was the commercial real estate property sector that was a difficulty. And I’m going to quote you from last week, and it was in ... making a point to Deputy Pearse Doherty. “You, know [that] the State injected ... €30 billion into Anglo. Anglo was not a residential property manager.” Did the CI ... Construction Industry Federation have any analysis upon the quantity of commercial real estate or ... we have spoken about the 90,000 plus units being unsustainable, but it would seem from Mr. McLaughlin’s evidence that it was the commercial real estate that broke the banks and not perhaps the residential. Did you have any conversation with the banks in relation to there being an oversupply in that sector?

Mr. Liam Kelleher: No. And I think if you go back to the Nyberg report, he also referred to the prominence of commercial lending as being a significant factor. I think about the ... the issue about the commercial lending and why it didn’t impact on the CIF in the way in which the housing figures did is that ... precisely because it was a relatively small number of relatively large companies. The investments in some cases would have been for completed buildings, not for ... not for construction activity as such. It would have involved a large number of players from insurance companies to pension funds, other investment funds as well as banks, who would be investing in commercial property. And I think there are figures to say that in 2006, 2007, there was €12 billion invested in commercial property of which something between €1.5 billion and €3 billion, I am not sure of the exact figure, was invested in Ireland. The vast majority of it was being invested outside the State.

Senator Michael D’Arcy: Can I ask you also-----

Mr. Liam Kelleher: And had very little to do with the Irish construction industry.

Senator Michael D’Arcy: Yes, can I also ask you, Mr. Kelleher, the term “unsustainable” has been used by yourselves.

Chairman: Final question now, Senator.

Senator Michael D’Arcy: Final question. In terms of the unsustainability of the sector, if the banks hadn’t have funded your members, your members couldn’t have gone building. Was there any analysis upon ICIF, you said you had one economist, about the increase of the banks’ balance sheet? Figures quoted quite consistently at this stage is, Bank of Ireland and AIB, in or around 30% year on year, a compound increase. Did that raise any alarm bells within the CIF during the period-----

Chairman: I need to allow time to reply for Senator, so I need to push the question.

Senator Michael D’Arcy: -----between 2001 and 2005, in particular; they were the big increases?

Chairman: Final question, Senator. Response, then I’m moving on.

Mr. Liam Kelleher: I understand that. The short answer is “No”. We took it, you could... you might say we were naive in hindsight, that the bank knew their business. They were reporting ever-increasing profits each year, they were employing - each of them - thousands of people. We felt they had teams of expertise in each area, relatively speaking, we had no reason to feel that the banking sector was in any way vulnerable.

Chairman: Thank you. Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chair. Good morning gentlemen. Firstly, Mr. Kelleher, I want to ask you in relation to the evidence of the chief executive of NAMA, before the committee he referenced ... he was speaking about project funding at the time and he told the committee that it was quite common for lending to be on the basis of very high levels of project funding, sometimes 100%. And where equity... where an equity pledge from the borrower was required, it often took the form of unrealised paper equity from other transactions. Were you or the Construction Industry Federation aware of that practice at the time?

Mr. Liam Kelleher: I said in our opening statement that we really didn't have any involvement and never had any involvement with the financial affairs of individual members. And I'd have to stress, they wouldn't have wanted us to. They wouldn't have seen that as a role for a federation, if they were a member of it. And I really believe that, and I believe that would be true of the IBECs or any other business organisation. Member firms regard their financial activities as ... as theirs and not their federation's.

Deputy John Paul Phelan: So you didn't take any active part, really, in how some of these projects were funded and the huge escalation in the costs of funding, in those kind of years 2000 to 2005?

Mr. Liam Kelleher: None whatever. None whatever.

Deputy John Paul Phelan: Okay. I want to turn to Mr. Parlon, it has been touched on by previous speakers, were you conscious when you became director general of the CIF in 2008, of the appearance or otherwise of a conflict of interest between your previous role, if you like, and the new role that you took ... that you were taking up? And did you take any actions to alleviate such an appearance?

Mr. Tom Parlon: Well, I think at the outset, when I was offered a job, I examined whatever legal restrictions or if there was any implication and there was nothing there that I was doing by taking up a job and really taking it over at the end of the year. So ... but no sooner had it been announced and there was quite an outcry of former Opposition people who said it was a dreadful misuse of whatever. And I didn't have any issue with it, I ... as far as I am concerned, you know, I did my duty in OPW entirely correctly and continued to do my duties otherwise and other than picking up some experience, I didn't see any ... I didn't see any conflict. And I still don't.

Deputy John Paul Phelan: Okay. And were you aware, I suppose to put the other side of the question that I was just asking Mr. Kelleher, in your role as a minister in the Department of Finance, of the huge increases in bank property lending at the time when you would have been the junior minister, were you concerned at the time? Or is it only with the benefit of hindsight maybe that-----

Mr. Tom Parlon: Well, I suppose the year before I took over the job, 2006 had been the peak and immediately in 2007 there were some concerns. I referred earlier to ... you know, interest rates had gone up a number of times. The Irish economy had started to falter a little bit, there were some international issues that caused less of ... and the sentiment that had been there. The mad sentiment where everybody just wanted to buy property and extra property had disappeared. So there was no question about it. House building decreased substantially from the peak in 2007 and when I started in 2008, you know, there were issues ... there had been a

budget brought in. The national development plan, which was the other side of the story ... I think there was €18 billion there over a couple of years and that was deemed to take up the slack ... if there was a reduction on house building, the national development plan was going to take up the slack. And, unfortunately, each year after that as Government finances deteriorated, the national development plan got slashed as well so we ended up with a situation where the industry ended up one fifth the size it was in about seven years, which was a massive collapse. And I felt I and the organisation were fire-fighting a lot of the time to try and protect ... to stall the slow down, try and ... you know, and there's times when I look back at some of the stuff I did and I'm embarrassed saying that we ... we've hit the bottom in 2008 and it's a good time to start buying again and houses were never so affordable. That's what I believed at the time but there was a new bottom found the next year, unfortunately, and so on, and, you know, we got into a major decline. The construction ... Minister Mr. Lenihan, the late Mr. Lenihan, opened a conference for us and he was widely publicised. We were hosting the international construction conference for Europe in Dublin Castle and he said he had the pleasure or otherwise in taking over as Minister of Finance when the construction industry had come to a shuddering halt and that was, unfortunately, matched by a fairly substantial credit crisis as well. So I found ... my first number of years there fire-fighting to try and stall the decline that was happening in the industry.

Deputy John Paul Phelan: Can I ask you both this, I only have a minute left. In relation to the national spatial strategy, which we touched on previously, and decentralisation, in the two roles that you were both in at the time, was the Construction Industry Federation involved in lobbying extensively on both of those matters? I can remember being in a different role in the Seanad at the time of the decentralisation announcement. You were junior Minister in the Department of Finance. There was general surprise the day that the Minister stood up to give the budget statement and virtually all of it was on the matter of decentralisation, which seemed to come out of the blue. Were you aware? Had you been lobbied by the CIF or others? Were you aware of the budgetary statement and what was-----

Chairman: We have to have an appropriate time and a response so running down the clock on a question like that is very difficult-----

Mr. Tom Parlon: Again, I'd say I have no recollection. I knew Liam Kelleher mainly through having met him at partnership negotiations when I was IFA president and Liam was in his role. I don't believe I ever met him in between so I didn't have any direct contact with CIF. As for decentralisation, that was a Government decision that was announced by Minister McCreevy. The PDs were part of that Government. I had some idea ... it was part of the whole policy lead up. As for the detail and so on, I didn't. I certainly welcomed it and took whatever political advantage out of the fallout for it and thought personally it was a good idea. And for the OPW at the time, it was a major boost. All of a sudden the OPW had substantial budget to build new offices around the country and an initiative I took myself was to sell off at the peak of the market some very expensive and very ... you know, some of the highest priced pieces of property in the country were ones that the OPW sold and took advantage of the ... the ... the strong market at the time.

Chairman: Thank you very much. Senator Marc MacSharry.

Deputy John Paul Phelan: -----the Construction Industry Federation about the spatial strategy-----

Chairman: You're way over time now Deputy, very briefly

Deputy John Paul Phelan: I'm not, I'm not actually. It's the question I asked.

Mr. Liam Kelleher: On the national spatial strategy specifically, it was a very thorough, very detailed project implemented in the Department of the Environment. They consulted widely in developing it ... I thought it was a very good document; I thought it was a very good strategy. They invested a huge amount of ... they being the servants and I'm sure the Minister in that Department, and I think it had a lot of merit. But it has fallen by the wayside in a resources issue now.

Deputy John Paul Phelan: And on decentralisation?

Mr. Liam Kelleher: Decentralisation came out of the blue as far as we were concerned.

Senator Marc MacSharry: Thanks very much. A few "yes", "no" answers here, gentlemen. I'll let you know which are appropriate. Why, in your view, was the danger of a crash in the commercial property market not perceived given that the housing market was in decline? And that's to Mr. Parlon first.

Mr. Tom Parlon: Well, I think, as my colleague said earlier, a lot of commercial exposure by banks was in buildings that had been maybe built for €20 million and been sold for €100 million based upon, sort of, the rising economy and so on. So in terms of ... if you take the other commercial in construction that happened in terms of either foreign direct investment, some of the biggest plants in the ... in Europe were constructed here on a contract price and probably the main contractors making 3% or 4% or 5% on them, so you know I don't know the ... When we look back and, as we say, it's much easier looking back, the notion that we could consider building 90,000 houses in a particular year with our population, you know, doesn't seem ... seems ridiculous now. At the time, even after the event, you know, it didn't appear to be, we were-----

Senator Marc MacSharry: On commercial property-----

Mr. Tom Parlon: Just to finish ... there was a view around that, unfortunately, we all bought into - and in politics I did and in the CIF when I went in there - that the Irish economy was somehow different than other ones, that we were growing faster, that we had bigger population growth, that we were coming from a low base, we had massive immigration and that, somehow or other, we could buck the trend. Clearly, we know that's not the case now.

Senator Marc MacSharry: Okay, Mr. Kelleher, you want to-----

Mr. Liam Kelleher: On commercial property, again our focus was on contractors and sub-contractors and, as Mr. Parlon has said, working on margins of 3%, if they're fortunate, in net profit at the end of the year. We were just not as conscious of the commercial lending that was going on. It was ... in a sense outside the normal day-to-day business of the federation - the scale of it, the concentration of it and, indeed, the fact that so much of it was taking place outside the country until after the event when the figures became available.

Senator Marc MacSharry: Okay and to Mr. Kelleher, "yes", "no" type stuff here now. In terms of your period from 1993, I think, right up to your retirement in 2007, was your relationship with government or the political system any different at the beginning than it was at the end or were there changes substantially, or was it a case that things started as they went on?

Mr. Liam Kelleher: The change I would say was in relation to social partnership, which brought all of the social partners into a broader range of contact with officials in a variety of

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Government Departments and then if there was a plenary meeting with the Taoiseach and with a couple of Ministers.

Senator Marc MacSharry: So other than social partnership your interaction with Government and political parties was it the same at the beginning as it was at the end?

Mr. Liam Kelleher: Yes.

Senator Marc MacSharry: Okay, you mentioned to Senator O’Keeffe earlier that members were close to Fianna Fáil and Fine Gael-----

Mr. Liam Kelleher: Yes.

Senator Marc MacSharry: Did it stop there or were there members who were close to Labour or Sinn Féin or Independents or socialists, or was it specific to Fianna Fáil and the PDs of course or was it specific to Fianna Fáil and Fine Gael?

Mr. Liam Kelleher: I don’t think, Chairman, that’s a “yes”, “no” question.

Senator Marc MacSharry: Well, you can break it down. If it’s “yes” to one and “no” to the other, please specify.

Chairman: You can choose to answer it any way you wish, Mr. Kelleher.

Mr. Liam Kelleher: Chairman, basically I didn’t know-----

Senator Marc MacSharry: You seemed to know that there was Fine Gael and Fianna Fáil members so did you know about the others ... or were there others?

Mr. Liam Kelleher: That was in response ... I don’t know is the answer, I don’t know if there were others.

Senator Marc MacSharry: How did you know that they were Fianna Fáil and Fine Gael then if you didn’t know about the others? Did they wear it on their sleeves?

Mr. Liam Kelleher: It was probably a bit more publicised in one or two cases.

Senator Marc MacSharry: Okay. Was it ever publicised in the case of Labour or Sinn Féin or the Socialist Party or Independents?

Mr. Liam Kelleher: Well, perhaps Deputy Higgins would answer that one.

Senator Marc MacSharry: He’s not the only socialist as you know.

Chairman: Please, can we get on please.

Senator Marc MacSharry: But this is important, so I mean was it a case that the Construction Industry Federation had a man in every port for want of a better expression. So that if you were coming on a particular day to lobby in the Oireachtas, was it specific to the Government parties or did you see everybody?

Mr. Liam Kelleher: The answer to that is no, we did not have a man in every port. We would see whoever was willing to see us.

Senator Marc MacSharry: Okay, and in the main, did that tend to be all Opposition par-

ties as well as Government parties or?

Mr. Liam Kelleher: Absolutely.

Senator Marc MacSharry: Okay, so can you give those instances then in your period up to the end of 2007 or the end of your tenure, can you highlight for us the dissenting voices as it were, or those parties that may have been saying to you: “Mr. Kelleher, we need to cool this market; we are concerned that this is overheating; we are concerned there is a bubble building”? Can you give us instances, if there were any, of any political entities, be them Government or Opposition, who were giving those messages to you at the time?

Mr. Liam Kelleher: No, I can't. I mean the overriding thing, as I said earlier, was a feeling of pressure to deliver ... pressure to increase output. And that goes across the spectrum of the main political parties, Government and Opposition, in the time.

Senator Marc MacSharry: Government and Opposition would have been promoting a pro-cyclical rather than counter-cyclical agenda, would that be fair or unfair to say?

Mr. Liam Kelleher: Pro-cyclical or counter-cyclical? Would've been saying ... would've seen or felt that supply was the challenge to meet what seemed like a very substantial demand in every sector of construction.

Senator Marc MacSharry: Would there have been anybody advocating-----

Chairman: Time up, Senator.

Senator Marc MacSharry: You're being a bit hard on me now compared to some of the others.

Chairman: No, no, I'm not.

Senator Marc MacSharry: Were there ... was there anybody at the time advocating an increase in stamp duty, as opposed to a decrease in stamp duty?

Mr. Liam Kelleher: Not that I'm aware of.

Senator Marc MacSharry: And, very finally, can I ask that ... the spatial strategy, I think most people would agree, would've been one of the drivers in the formulation of the National Development Plan 2006 onwards, as opposed to the one before. To the best of your knowledge, apart from submissions from yourselves and indeed many people in this room and elsewhere, in terms of the drawing up of that strategy, was there to your knowledge a level of spatial planning expertise used in the formulation of the document we know as the spatial ... national spatial strategy?

Mr. Liam Kelleher: Senator, I wasn't involved in it but I had high respect for the officials in the Department of the Environment who were involved in it and I know that some of them were specifically qualified in development and in spatial planning.

Senator Marc MacSharry: Was there international assistance with that?

Chairman: Sorry, I have to bring you to an end there now.

Mr. Liam Kelleher: I have to say, Chairman, I don't know. It would be a question that the Department of Environment would know the answer to. I know they consulted widely. They

commissioned consultants ... a number of consultancy companies in drawing up the strategy.

Senator Marc MacSharry: Thanks very much.

Mr. Liam Kelleher: Thank you.

Chairman: Okay. Thank you very much, Senator. There's been a number of engagements or questions this morning, Mr. Kelleher and Mr. Parlon, in regard to the CIF's engagement with NAMA, the CIF's and its members' engagements with politicians. I want to kind of broaden that out into other engagements as an active organisation and one of them relates to your engagement with the Central Bank. In the Central Bank business sentiment survey from late 2005 - the reference document is going to come up on the screen here shortly - from late 2006 the CIF was quoted as a respondent. In late 2006, the CIF's feedback was still very positive in indicating only gradually declining housing input and more moderate price inflation. Why were such positive statements given at the time and planning permission and housing starts were clearly indicating weaker industry conditions at that time, Mr. Kelleher?

Mr. Liam Kelleher: Sorry, Chairman, I lost you there and I'm looking for the document.

Chairman: Is it coming up there, is it? Sure. It should be on the screen there now in the next moment or two. It's in front of you. And what ... the business sentiment survey there that was-----

Mr. Liam Kelleher: It's the NAMA document we have on the screen here. Sorry, I have it now, yes.

Chairman: Okay, thank you very much. Basically this is a summary of the business sentiment survey that was issued ... or dealt with through the CIF with the Central Bank:

- In [the] Central Bank['s] Business Sentiment Survey from late 2006, the CIF indicated that they only expected housing input to be around 90,000, with only a small decline the following year.
- They advised that the market was coming more into equilibrium with output [as] stabilising and then declining gradually, with price inflation easing to moderate levels.
- They also pointed ... that An Bord Pleanála [have] declined thousands of planning permissions for particular reasons, which would likely reappear in the data subsequently and that this may be giving too negative an impression on the outlook for housing output.

So what is happening there is the CIF in its engagement, as part of the survey with the Central Bank business, the sentiment was that we're ... it's positive, there's going to be a bit of a slow down but more or less it will still be sustainable. Where was that analysis coming from, Mr. Kelleher, back in 2006?

Mr. Liam Kelleher: I am not sure exactly when it was and, I'm sorry, I don't recall this ... I am trying to place it as best I can. The figure for housing output would've been the ... would've been close to what turned out to be the outcome. So that was reasonable to have there. On several occasions we thought in previous years that output had stabilised and that it would not increase further beyond figures significantly below that figure there. So we were always, I suppose you would say, hoping that output was stabilising at a high and reasonably sustainable level. On the latter point, the third point, I actually have no specific information. I can't ... I can't-----

Chairman: Okay, and I can appreciate that but would you ... looking at that now ... consider it to be a fair and accurate reflection or not of what the general sentiment of the CIF was around that time in 2006?

Mr. Liam Kelleher: I would say it was a fair ... certainly the first two points, a fair and accurate reflection, of what members of the federation, housing members of the federation, would have been saying to the housing director at the time.

Chairman: In about a year later, a programme was broadcast by RTE called “Future Shock[s]”, which gave an entirely different reading of the situation out there. And at the time, Hubert Fitzpatrick on behalf of the CIF, the housing director there, issued a strong statement challenging the “Future Shock[s]” programme, with the opening comment that “the continued strength of the Irish economy is such that the programme’s pessimism is completely misplaced.” Do you have a comment to make upon that now?

Mr. Liam Kelleher: We were too optimistic at the time. That programme turned out to be pretty accurate. The style of the programme at the time I thought was unduly alarmist, it was done in a somewhat tabloid style. That would have been my own personal question mark in relation to it. The ... those who organised the programme were obviously entitled to do that. Optimism declined rapidly through 2007. From late 2006, in some ways the peak had passed. And we were saying in late 2007 that it had temporarily abandoned, as we felt, the industry entirely. So very rapidly, confidence disappeared and demand for housing declined.

Chairman: But in the statement of that time which was in around April 2007, the statement goes on to say in the same paragraph, “Even the most pessimistic prediction of economic growth next year which is 3.5%, will see the Irish economy growing at nearly twice the EU average.” Then it goes on further in the statement to say, “The current situation in the housing sector is a sign of strength and maturity, with the industry responding quickly to the transition in the market.” So there was a very strong position coming out in the CIF that despite the concerns being expressed in the “Future Shock[s]” programme, that you were making ... or the CIF, through Mr. Fitzpatrick, was making the statement that this was completely misplaced. Would you on ... despite the presentational aspects of it, what is your view of that now, going back and revisiting what the CIF’s position was at that time?

Mr. Liam Kelleher: None of us thought for one moment that the scale of the decline which occurred would ... would occur. We did see the absolute drop in confidence from ... on the purchasing side as bringing down - and we were pretty early to signal that in 2007 - that we felt that output in 2008 could drop as low as 45,000 units, I think, was the figure we were talking about at the time, at a time when official projections from all sources were still of the order of 65,000 units per annum. So we were the outrider ... outlier late in 2007 in saying “Confidence is gone and the thing is dropping”. In 2006 the picture was still obviously different from our point of view.

Chairman: Final question on this, Mr. Kelleher. All organisations ... they have a number of different activities, of them one would be monitoring Government policy, engaging around Government policy - we discussed taxation this morning - others would be having a press agency in it, which kind of refers to the statement here, and other parts would be maybe taking on a more stronger rebuttal on positions that organisations would not agree with. Did the CIF write to RTE after that programme and express a view about it?

Mr. Liam Kelleher: My memory is that I wrote to RTE and that I expressed the view that

I have given to this committee, that I thought the style of the programme was not what you'd expect from the national broadcasting channel. I didn't, to the best of my recollection, and this ... you raise with me now out of the blue ... I did not object to the content of the programme. I probably said it was too alarmist all right but it was the style of the programme that I thought was inappropriate.

Chairman: Okay. So presentation rather than substance, is that what you are saying to us today?

Mr. Liam Kelleher: That's my memory of ten years ago or eight years ago, yes.

Chairman: Okay, thank you. Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte chun an beirt agaibh chuig an coiste. Can I ask you did the CIF undertake or commission research into the structure or outlook of the construction and property sector in 2007, especially on the way that it was being funded?

Mr. Liam Kelleher: The short answer is no, to the best of my knowledge.

Deputy Pearse Doherty: Did you have any concern in relation to how the property sector was being funded and if not-----

Mr. Liam Kelleher: You quite fairly, rightly, refer to the property sector and I've been ... we have been both been drawing a bit of a distinction during this morning in saying that the focus of the federation was on contractors, subcontractors and house builders. Now, there are elements of the property sector ... the wider property sector that are absolutely remote from the ... from the federation. In fact, if I can digress for just one minute Deputy and I'm not cutting short on you, on pages 115 to 118, there's a reference to a series of representations made by ... by bodies to Government Ministers and I've taken from the year 2001 to the end of 2007 and there are 62 references there ... 62 items of correspondence. Twenty three of them just were made by the CIF or the IHBA, a constituent member. Thirty nine were made by other bodies in the wider construction, in the wider property sector, 19 different organisations and individuals. So, I suppose a point I would make strongly is that property is wider than construction. Construction is the most obvious and most visible. Construction is the supply side that adds to the stock of property in the country. But that's what it is. It is the new build ... it is the new build side of things, not the wider property and not the financing of property-----

Deputy Pearse Doherty: So can you give the committee an example, because obviously we know that NAMA took on board the loans of commercial property into NAMA and you have made very strong submissions and strong critique of NAMA in the past. Yet, they weren't houses that people owned mortgages from in rural Ireland or indeed in the capital city, they were commercial property in the most, in the main. So when you say that the CIF are only interested or only represent the construction part, the building part, when somebody has €1 billion of property loans, with the vast majority of that being commercial, do you not represent all of their interests or just part of their interest?

Mr. Liam Kelleher: We might represent none of their interests. If that was a property portfolio, we wouldn't have any involvement with it, if that was all that was involved. It's building activity that the CIF were ... the members of the CIF were builders, contractors-----

Deputy Pearse Doherty: Well, can I ask you-----

Mr. Liam Kelleher: -----subcontractors and house builders.

Deputy Pearse Doherty: You're on the record that CIF has lobbied Government for tax relief ... sorry, reductions. So would that not be in relation to property speculation and the benefits of transactions and not the construction in itself?

Mr. Liam Kelleher: It would be for the benefit of the contractors who would be implementing the projects, who might also be the developer, yes, might also be the developer.

Deputy Pearse Doherty: And would it be the larger developers, which were also members of the CIF, that would have been the major beneficiaries of such moves?

Mr. Liam Kelleher: The larger contractors were virtually all members of the CIF. The larger developers, particularly if they were property investors, it would have been a much more mixed picture. A fair number were not.

Deputy Pearse Doherty: The NIRSA report, and it's been mentioned earlier on ... there's parts of it in page 5 to 9 of Vol. 2, there's a subsequent reference in the later part of the report and I quoted it. It talks about the issue of oversupply is not limited to housing but also hotels, shopping centre, retail parks and industrial units. Can you explain in your opinion why this happened? Why there was such an oversupply on this type of commercial property?

Mr. Liam Kelleher: I don't think there is now that level of oversupply. I think that's overstated in that ... in that report. I think for a period there was overbuilding of retail and probably retail park-type construction activity. But that was against a background of a period where many of the British multiples and, you know, furniture companies, DIY companies were moving into ... into Ireland because it was a growing and expanding market. I don't think that there is a significant issue of oversupply with individual exceptions of the type of commercial construction you've itemised there.

Deputy Pearse Doherty: Okay. Can I ask just to clarify for the record in the evidence here, you mentioned to Mr. MacSharry that you lobbied all parties and just to clarify in relation to that there, how does that ... how far did that go? There's some parties that existed a number of years ago that have no representation in this House. There's other parties that would've been of smaller. So did you ... did the CIF directly lobby the Greens, the PDs, the Sinn Féin, the Independents? Can you explain that? And were you aware of the policies of those parties when you made the statement that you made? And the final question, as well, can I ask either of you, have you ever visited the Galway tent? I think Mr. Parlon that you said that you weren't ... you may have mentioned that you weren't a frequent visitor or and so if you can maybe explain-----

Chairman: As Minister or as a member of the CIF?

Deputy Pearse Doherty: Well that's for him to answer.

Chairman: Okay, sure.

Deputy Pearse Doherty: You know. So if you can explain just the circumstances that surrounded you, if you have visited the Galway tent how did that happen?

Chairman: Okay, final reply now and then I am going to wrap up.

Mr. Tom Parlon: Well, first of all I've been a regular visitor to the Galway races since I can hardly remember. I do remember once, anyhow, being at the Galway tent when I was in IFA

and a member of the FBD insurance board. I think we ... we took a table or whatever. Otherwise, not since I've been ... not since I was in politics, I believe and not, certainly not since I've been in CIF. I'm not sure if the Galway tent existed since I've been in CIF anyhow.

Mr. Liam Kelleher: If you like, Deputy, I'll answer that second question first too. I've never been at the Galway races, so I've never been in anyone's tent.

Deputy Pearse Doherty: Right.

Mr. Liam Kelleher: I have forgotten the first question-----

Deputy Pearse Doherty: The first question was the extent when you mentioned that the CIF lobbied all political parties, just for the record, are we talking about every single political party here? Where there's very small political parties, there's larger-----

Mr. Liam Kelleher: No, I probably should say the main political parties. But that was quite a ... a significant number, you know. I'm ... I don't want to go through a list unless the Chair wants me to. But we would've lobbied basically anyone who we felt was willing to meet us.

Deputy Pearse Doherty: And just to clarify, did that mean that the CIF directly lobbied the Labour Party? And because the main political parties have different, you know ... parties grow in strength and reduce in strength, so did you directly lobby the Labour Party? Did you directly lobby the Green Party? Did you directly lobby the PDs, which would be very small in certain times but may be seen a main political party? Did you directly lobby Sinn Féin, the Socialist Party, and so on? Can you give us an indication because this is ... this is required for evidence or may be required as we determine our conclusions at the end.

Mr. Liam Kelleher: Chair, I'm not sure ... I have to be honest and say I'm not sure about Sinn Féin, and I wouldn't think that we lobbied the Labour Party ... or now, sorry, the, the Socialist Party, for no very good reason of any exception or otherwise. But we did lobby all of the other political parties. We would've met them and we would've been anxious to meet them. It would've been, at times, not easy to meet them. And we wouldn't have met them that often. But the main focus would've been about, around our budget submission.

Chairman: Thank you. Deputy Murphy, final supplementary, then Deputy McGrath supplementary and we'll wrap up.

Deputy Eoghan Murphy: Thank you, Chair. Mr. Parlon, I just want to go back to a meeting that Deputy McGrath raised earlier, it was in relation to NAMA on 28 September 2009. It's page 15 in the core booklet. This is a meeting between the CIF with the Department of Finance and the NTMA. On top of page 15. You were there representing the CIF as director general at the time, but you had a number of colleagues there with you. Why were they there?

Mr. Tom Parlon: Well if you go through, Hubert Fitzpatrick is our director of housing and led up the Irish house builders. Joe Cosgrave was one of our members and was a member of that sub-committee, as was Michael O'Flynn and Alex Brett, likewise, was a member of that sub-committee that we established to look at the whole NAMA issue.

Deputy Eoghan Murphy: In relation to the first paragraph then, on pre-establishment issues, you queried whether the Central Bank letter issued in May was still in effect. Now this was a letter and we've been through it with NAMA already that stated: "where additional funds were lent to [borrowers] following the announcement to establish NAMA, a haircut would not

be applied on these amounts provided funds were lent on a sound commercial basis". And just, a little later in that paragraph, "members were finding it very difficult to secure working capital". Now did you make that point on behalf of the CIF or did-----

Mr. Tom Parlon: Yes, I'm sure I did-----

Deputy Eoghan Murphy: -----one of the others present?

Mr. Tom Parlon: -----and I think at the time, obviously the banks were in disarray. They weren't ... the whole issue of NAMA taking over the loans ... weren't too sure. So, there were people involved in negotiations with their banks at the time. And all of a sudden NAMA came in. So it was about to cut off, it is about did the *status quo* exist or has NAMA changed the whole ... so it was a very transient time and we were just trying to establish what was the scenario.

Deputy Eoghan Murphy: So, members were finding it difficult to secure working capital but they did secure working capital. NAMA told us that they secured €2.3 billion in working capital in that period but if they decided that roughly half of this was not eligible under the Central Bank scheme, that the money wasn't advanced for commercial purposes - roughly half, about €1.1 billion, so what was it advanced for?

Mr. Tom Parlon: Well, I assume it was projects that were being developed at the time. I honestly don't know off the top of my head. I assume it was for projects that were ongoing, because NAMA came in when it did, like, the industry had been in serious decline but even in the worst-case scenario, our industry was worth about ... over €8 billion worth of activity, in any year, and employed, sort of, at the minimum, 96,000 people, so there was still quite a lot of work going on at any particular time, even in the worst-case scenario.

Deputy Eoghan Murphy: But NAMA concluded that €1.1 billion wasn't advanced to these borrowers for commercial purposes, it wasn't eligible under the scheme and you had lobbied for this money to be released.

Mr. Tom Parlon: Well, I think it was more seeking clarity was the situation, rather than lobbying, but clearly we represented our members and that's sort of unashamedly what any representative organisation would do, or if as a Deputy or as a Senator, if a constituent comes to you and says I have a problem with X, and I'm not happy the way a particular Department dealt with me, and so on, that's what you would do, and that's what I did in my role as CIF director, I represented the members' issue.

Deputy Eoghan Murphy: Given what NAMA has told us since then, that €1.1 billion was advanced and wasn't eligible, should you have lobbied for that?

Mr. Tom Parlon: Well, look it ... I'm very conscious that we were before Brendan McDonagh, Kevin Cardiff, Derek Moran, who I think now is the Secretary General at the Department of Finance, we were in front of heavy hitters, there was no one going to roll over, nobody was going to take a particular view. We made our case, as we always did, and very often it was, you know, it was dismissed or it wasn't taken on board-----

Deputy Eoghan Murphy: Not in this instance.

Mr. Tom Parlon: No, and in this case we made our case, certainly.

Chairman: All right, thank you very much. Deputy McGrath.

Deputy Michael McGrath: Thanks, Chair. You state in your opening statement, Mr. Kelleher, access to finance was not an issue raised by CIF members in that period, the period leading up to 2008, actually, it is Mr. Parlon's opening statement, and I suppose that has to be seen against the backdrop of the evidence that has emerged since from the banks in terms of the relatively easy access to credit that was there. But would the CIF at any stage have got involved in supporting individual loan applications with any of your members, during either of your tenure, have requested the support of the CIF to access credit? And you would have become involved in directly contacting a bank, for example, to support a loan application?

Mr. Liam Kelleher: With hindsight, I don't think it was ever necessary, you know. In other words, when I said that no, nobody, no member came to us saying "I have a problem getting finance", we just ... it didn't arise.

Deputy Michael McGrath: Mr. Parlon?

Mr. Tom Parlon: Well clearly, I came in at a different time, and this was like in 2006, 100% mortgages were the norm. So all of a sudden that changed, and, you know, the banks tightened up very much and then very shortly, within two years, the banks practically closed up in terms of lending to either construction or to house building. And it would have been very difficult at that time to make a case for building houses, when we had an oversupply of houses. But certainly, we began then a range of meetings with the banks to explain the situation on behalf of the industry and find out where they were coming from, and it was a bit of a cant, even lately. The banks always say, "Look, we're open for business, come in and talk to us", but in practice, this wasn't happening for a long, long time-----

Deputy Michael McGrath: Would you have got involved in individual loan applications?

Mr. Tom Parlon: Yes, I have done.

Deputy Michael McGrath: You have done.

Mr. Tom Parlon: On individual members that found themselves in pretty severe financial situations approached me, and that was one of the features with the banks, they said to us if we had a sort of a touchpoint, we had somebody, that we had arranged to deal with, and raise some issues that maybe people were finding it difficult otherwise. But that was the end of it. We made the particular points and they went along-----

Deputy Michael McGrath: Yes. Has the CIF got involved in individual planning applications, supporting applications, in either of your tenure?

Mr. Tom Parlon: No, but we would have very, very substantial expertise in the planning side, and we would have advised members, certainly, with regard to planning applications or, if in the event of a planning application being rejected, we would have expertise that would have looked at it and said "Look, obviously the reason is X, Y or Z, and if you want to reapply you should amend that particular element of it", or whatever.

Deputy Michael McGrath: Finally, Mr. Kelleher, you said earlier on that if you knew the way things were going to transpire, you might have sought to temper things, I think is the phrase you used. And I suppose my question for you is, if you were put in a time capsule and put back to 2003, as head of the CIF, with all of the knowledge you now have, and you were able to carry all of that with you, what could you have done, in that role, to temper things?

Mr. Liam Kelleher: It's a good question, Deputy. I'm not sure, as early as 2003, that anybody would have wanted to do anything differently. I think it is later on, 2006, that the contrarian voices were making up their statements, very much a minority, but nonetheless they were there, and we didn't pay the attention to them that we should have. That's one thing I would do differently. The other thing that I would certainly have learned from the whole period and subsequently, is just how essential the issue you were previously talking about, working capital, or was being talked about earlier, is to the construction industry. Really, you know, a certain level of credit, a certain level of working capital, is essential to the construction industry. There was too much of it in the period you're referring to, and then it disappeared, totally, and there was too little of it.

Deputy Michael McGrath: Thank you.

Chairman: Thank you very much. So with that said, if there is anything, Mr. Parlon, Mr. Kelleher, you would like to add further before I bring matters to a close, is there anything you'd like to add in conclusion, Mr. Parlon?

Mr. Tom Parlon: No, I appreciate the opportunity you have given us to explain and just, I'm glad I wasn't asked that question, Deputy, but if I was put back in my new role when I went in, to sort of stop the galloping horse that was there would have been an extremely difficult job. If I had to jump out in front of it, I probably would have been dumped out of the job very, very quickly. And just to give a final point, in terms of, at that time, 10,000 houses created a billion's worth of Exchequer return. It created 30,000 jobs and it accounted for a 1% increase in economic growth. So it was a massive cash cow, everyone thought it was brilliant, but clearly, it wasn't ... and we were a big part of that. Our industry has suffered very badly as a result of it, and likewise, the whole country has suffered, and individuals, so, you know, to have stopped it at the time ... clearly we all, and I am looking forward to the eventual ... decisions that you take, and recommendations, but, just to say, having thought about it long and hard, and the CIF, whatever the impression might have been, they're a very impressive, serious organisation with people that have been there for 20 and 30 years, a lot of experience, and a lot of integrity involved in the people. We look at that in terms ourselves and say, "What could we have done?"

It would have been bloody difficult to stop it, at that time, but clearly, you know, a company that's reliant on your customers having 100% mortgages, and we not knowing where the financing was coming, and a banking system that was reliant on a massive lot of short-term credit and giving long-term loans was a recipe for disaster, but I didn't have the scope to see that, I'm sorry to say, at the time.

Chairman: Thank you, Mr. Parlon. So with that said, I would like to thank Mr. Parlon and Mr. Kelleher for their participation today and for their engagement with the inquiry. I now formally excuse the witnesses and I propose that we suspend until, if we take a ten-minute break, returning at ten minutes after 12 p.m., where we will then hear from Mr. Patrick Davitt, chief executive of the Institute of Professional Auctioneers and Valuers. Is that agreed? Agreed.

Sitting suspended at 11.58 a.m. and resumed at 12.20 p.m.

Institute of Professional Auctioneers and Valuers - Mr. Patrick Davitt

Chairman: I now am proposing that we go back into public session. Is that agreed? Agreed. We now move on to session 2 of today's proceedings, which is a public hearing discussion with