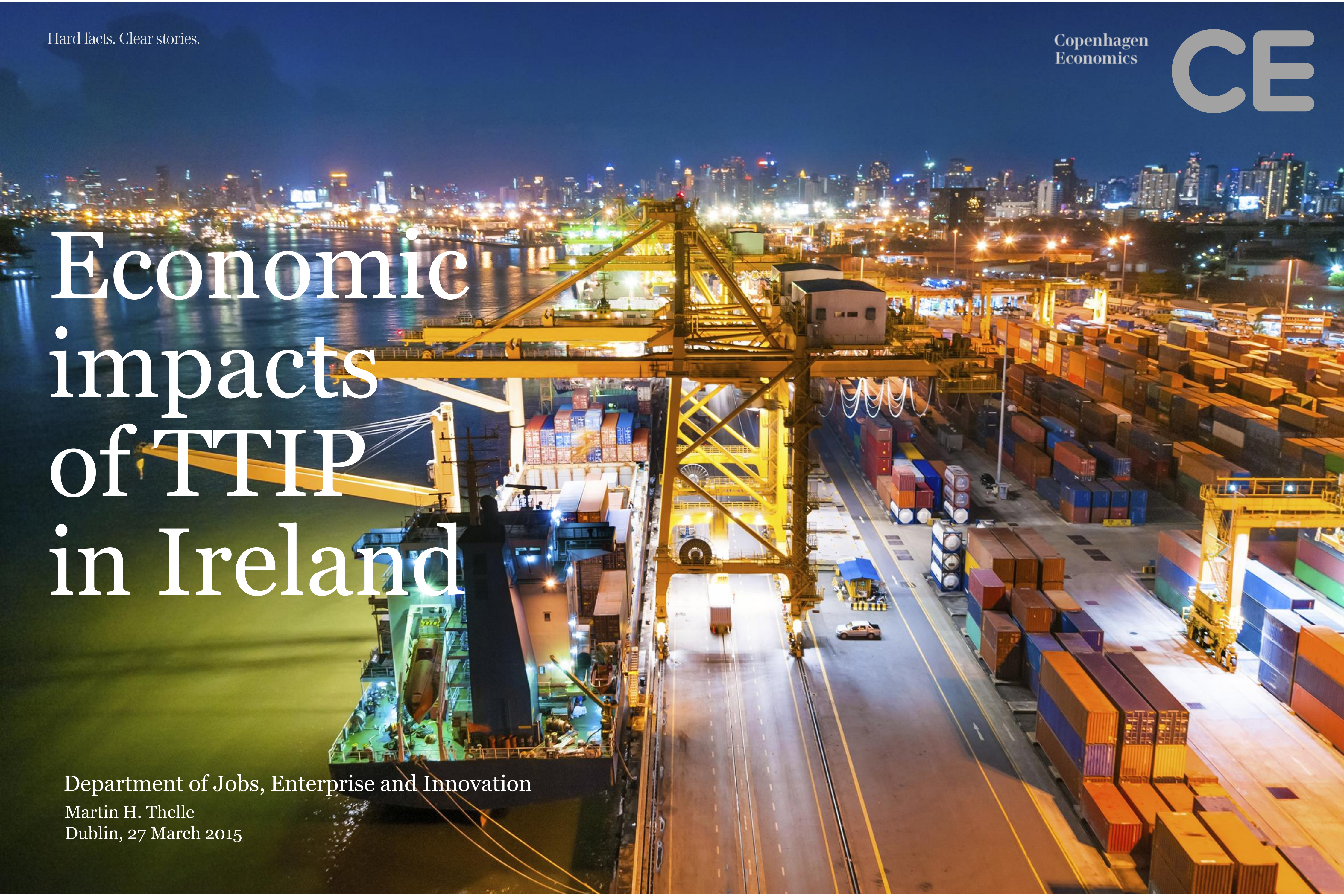


Hard facts. Clear stories.

Copenhagen Economics

Economic impacts of TTIP in Ireland

Department of Jobs, Enterprise and Innovation

Martin H. Thelle

Dublin, 27 March 2015

Introduction

Purpose of the Study

Objectives

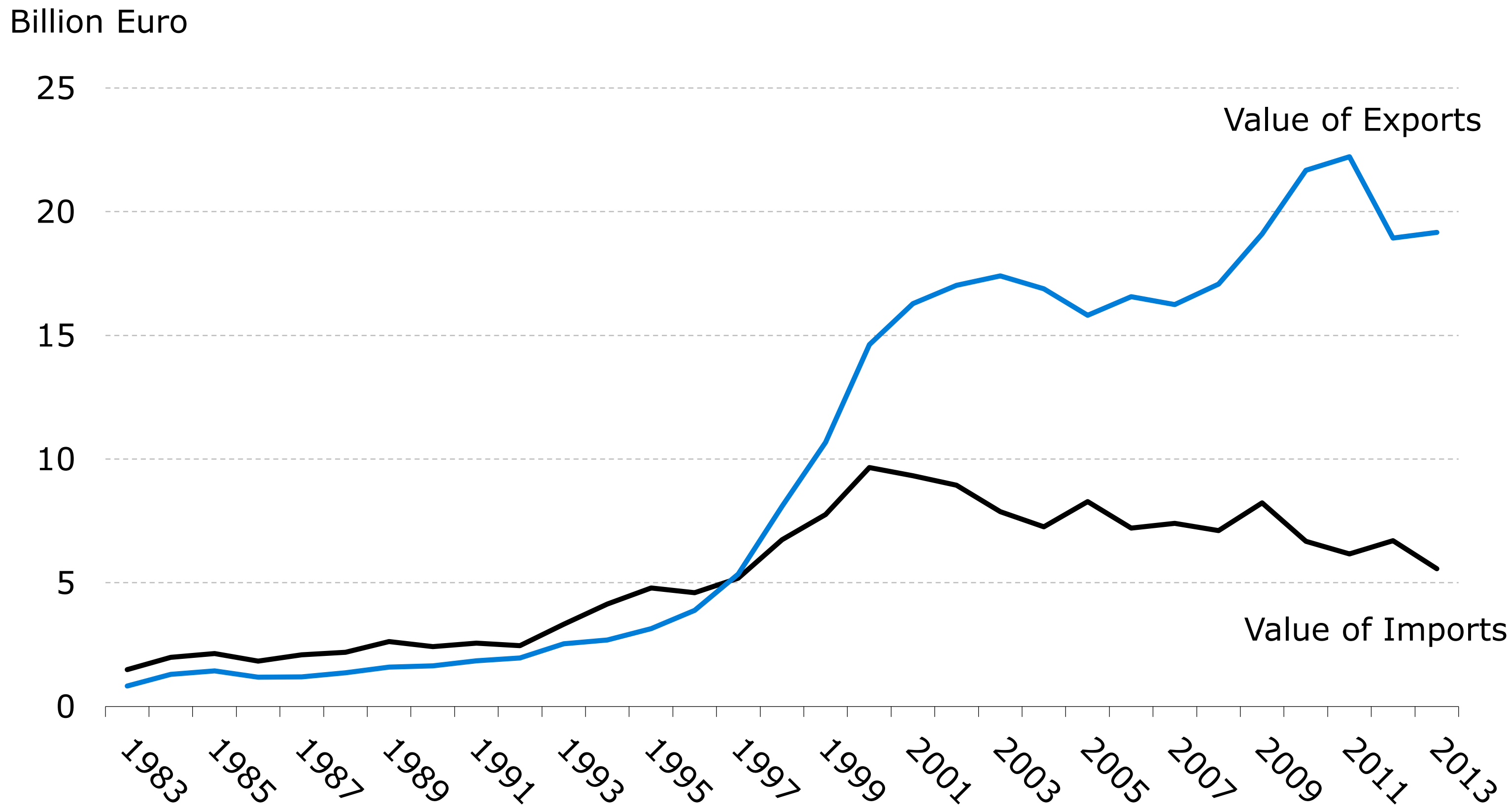
- Quantify the sectoral and overall macro-economic impacts of the TTIP on the Irish Economy
- Identify key sectors
- In-depth analyses of key sectors

Approach

- Large scale model from the CEPR (2013) study
- Adapted to the Irish economy and sectors
- Stakeholder consultations

Current trade between Ireland and the US

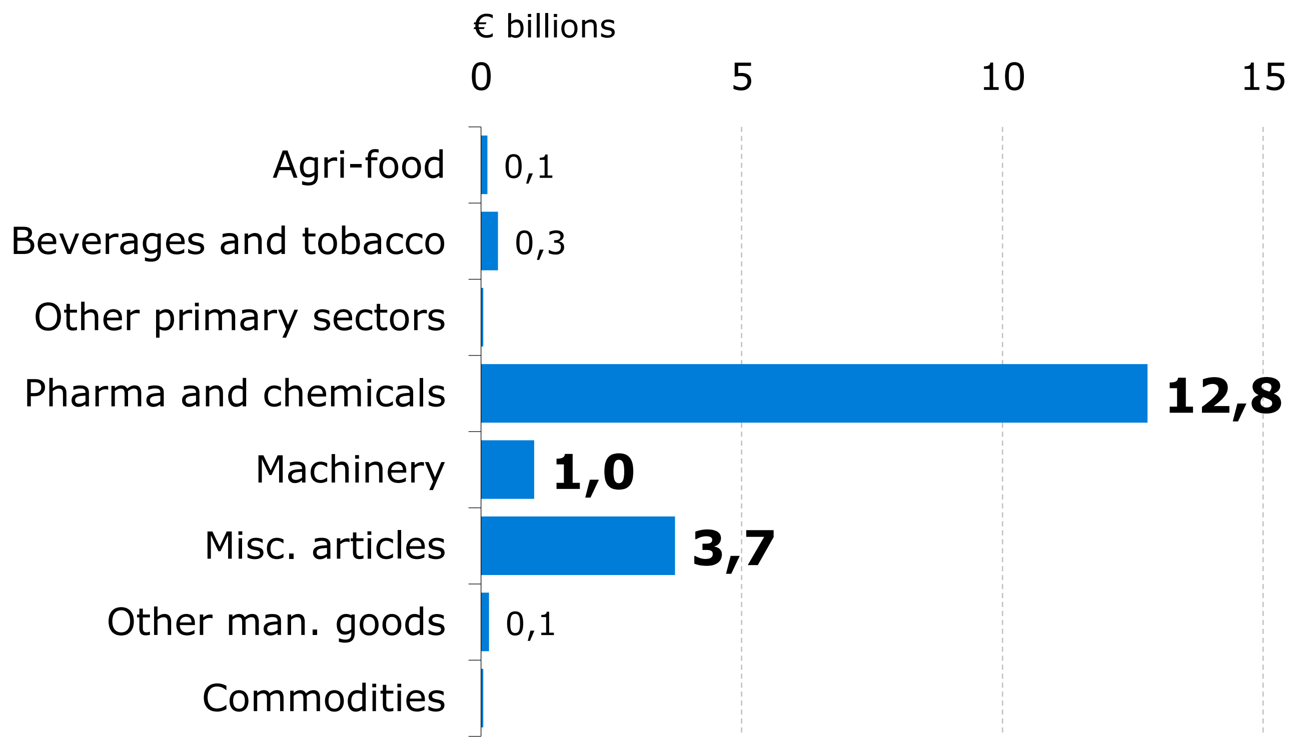
Ireland’s trade in goods with U.S.



Export to US

Pharmaceuticals dominate goods exports

Value of goods exports to the US, 2013



70%
is pharmaceuticals, chemicals and related products

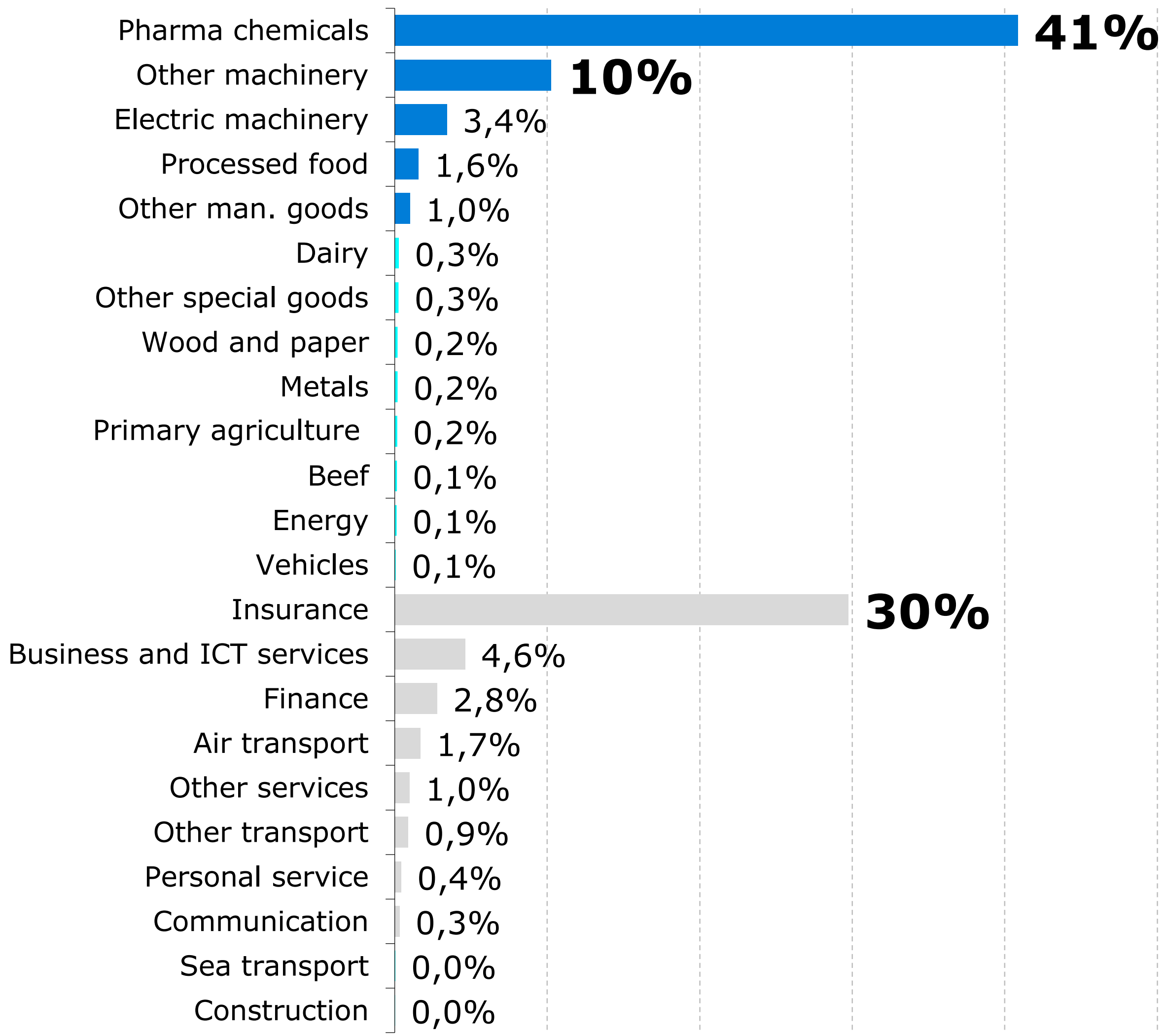
Note: Irelands export to the US.
Source: Copenhagen Economics based on data from Irish CSO

Ireland's exports to the US

Goods exports
~60%

Service exports
~40%

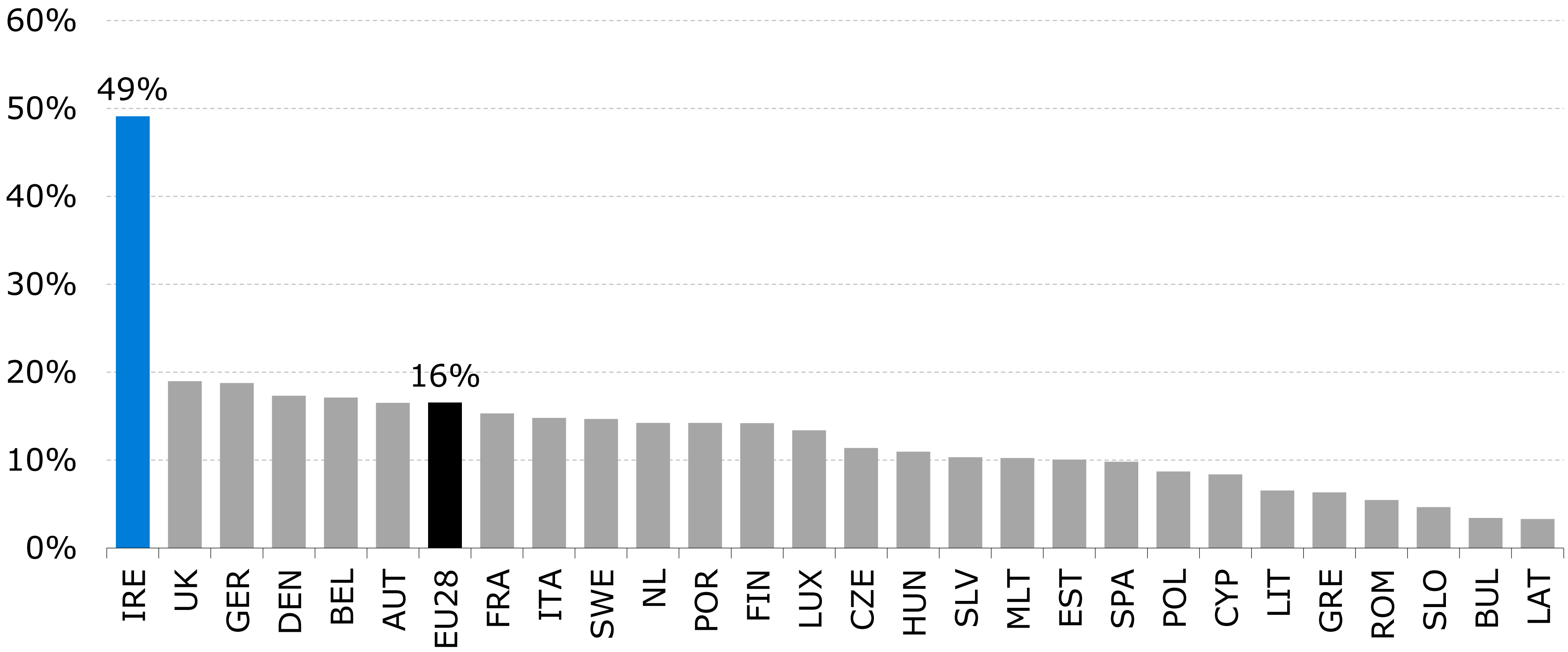
Composition (% of total goods + services)



Source: Copenhagen Economics based on GTAP9 data.

A strong Ireland-US trade relation

Share of extra-EU export of goods destined for the US market



Note: Based on value of exports for total goods exports. Share of exports to the US relative to total extra-EU export.
Source: Copenhagen Economics based on data from Eurostat.

Current barriers to transatlantic trade

Tariffs are generally low – but peaks for certain products

Tariffs applied **by the US** on imports from the EU

Agriculture average	6.6%
Industry average	1.7%
Total average	**2.2%**

Tariffs applied **by the EU** on imports from the US

Agriculture average	12.8%
Industry average	2.3%
Total average	**3.3%**

Irish exporters pay **in excess of USD 300m** in tariffs to the US Treasury per year.

Source: Tariff averages from Cepii (2013)

Non-tariff barriers and regulation

Regulation is legitimate

- ensuring consumer information
- improving health
- product safety
- preserving the environment

Regulation in itself does not hinder trade

… but *differences in regulation* and *procedures* to comply these may increase the cost of selling in foreign markets

- Familiarisation costs
- Conformity assessment costs
- Certification costs
- Adaptation costs
- Blocking products

Non-tariff barriers may affect firms in several ways

NTBs implies both

a) Upfront fixed costs of selling in a foreign market

b) On-going variable costs of exporting to that market

This in turn affect firms'

i) Probability to export (to a country or a product)

ii) Value of export

iii) Export prices

Impact can measured as a *tariff equivalent*, but impact differs from that of a tariff – e.g. they do not yield any fiscal revenue, and NTBs can be a **heavier burden on SMEs.**

Cost impact estimates and *'actionability'*

Objective:

*Reduce costs for exporters, **without compromising the existing levels of protection** of safety, health, environment.*

Cost equivalent of NTBs in **the US** for imports from the EU

Manufacturing goods average 22%

Cost equivalent of NTBs in **the EU** for imports from the US

Manufacturing goods average 25%

Source: CEPR (2013)

Cost impact estimates and *'actionability'*

Objective:

*Reduce costs for exporters, **without compromising the existing levels of protection** of safety, health, environment.*

Cost equivalent of NTBs in **the US** for imports from the EU

Manufacturing goods average 22% -> 16%

Cost equivalent of NTBs in **the EU** for imports from the US

Manufacturing goods average 25% -> 19%

Source: CEPR (2013)

'Actionability' = *expectation that around one ¼ of the costs resulting from regulatory differences can be reduced by TTIP.*

NTBs differ from sector to sector

Cost equivalent of NTBs in **the US** for imports from the EU

Food and beverages, average	73%
Pharma and chemicals, average	19%
Electrical machinery, average	15%

Source: CEPR (2013)

Main results

Main results

This is an EU-US agreement … not Ireland-US

- TTIP will boost EU GDP by €120 bn and the US GDP by €90 bn (CEPR, 2013)
- Realising an untapped potential
- Limited trade diversion
- Trade with third parties will go up

TTIP will change how Irish firms:

- …trade with the US
- …trade with rest of EU
- …trade with the rest of the world

Trade liberalisation – and in particular NTB reductions – has different impacts on SMEs and MNEs

Main results

Main economic impact in Ireland: Large and positive

More trade

- Overall Irish export up by 3.8% to 5.0%
- Overall Irish import up by 4.3% to 5.3%

Higher economic growth and welfare

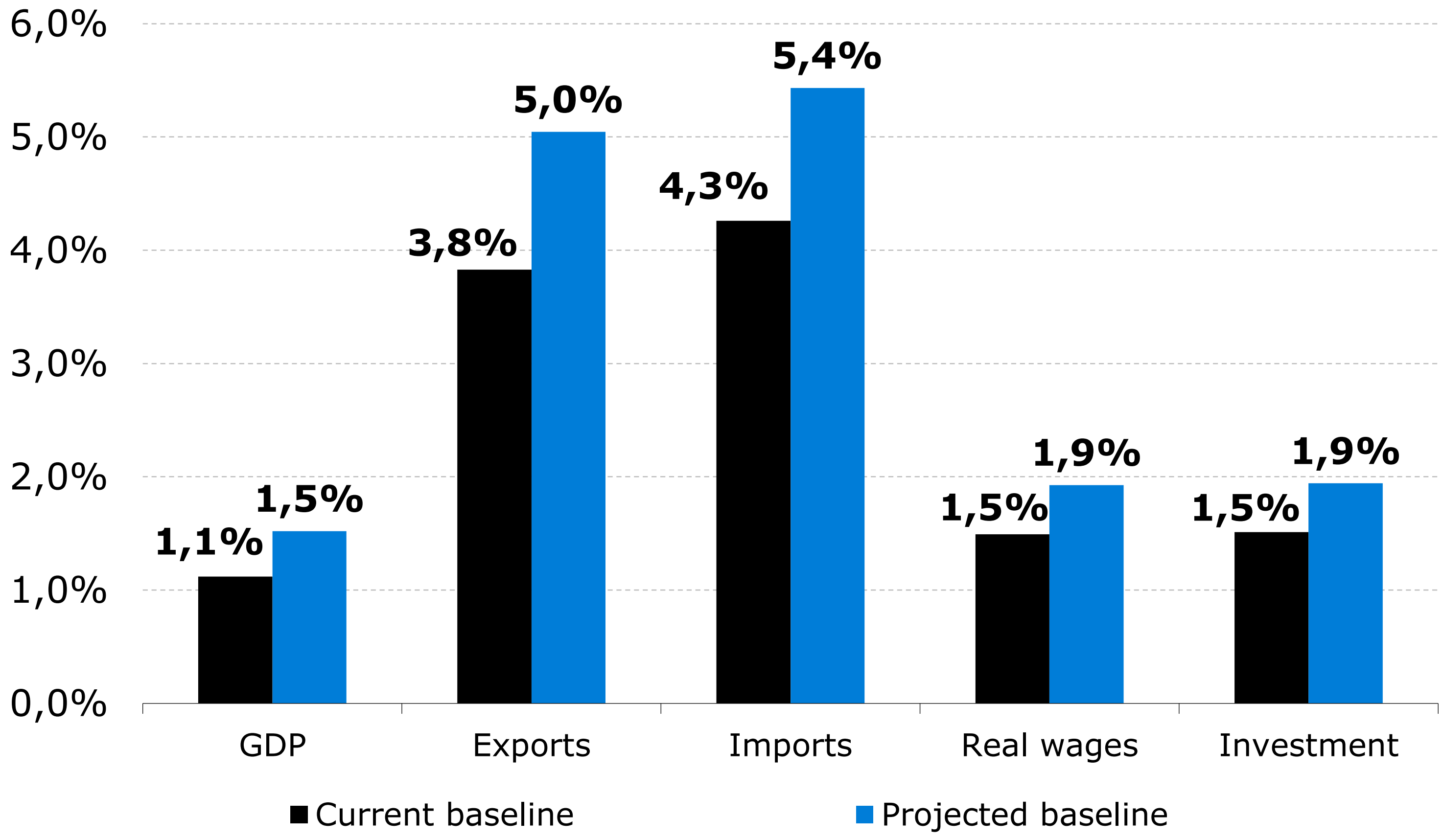
- Irish real GDP up by 1.1% to 1.5% (EU avg. 0.5%)
- Investment up by 1.5% to 1.9%

Higher wages and more export-related jobs

- Real wages up by 1.5% to 1.9%
- Export increase is estimated to correspond to 5,000 to 10,000 additional export-related jobs in Ireland.

Macro-results with current *and future base year* (2030)

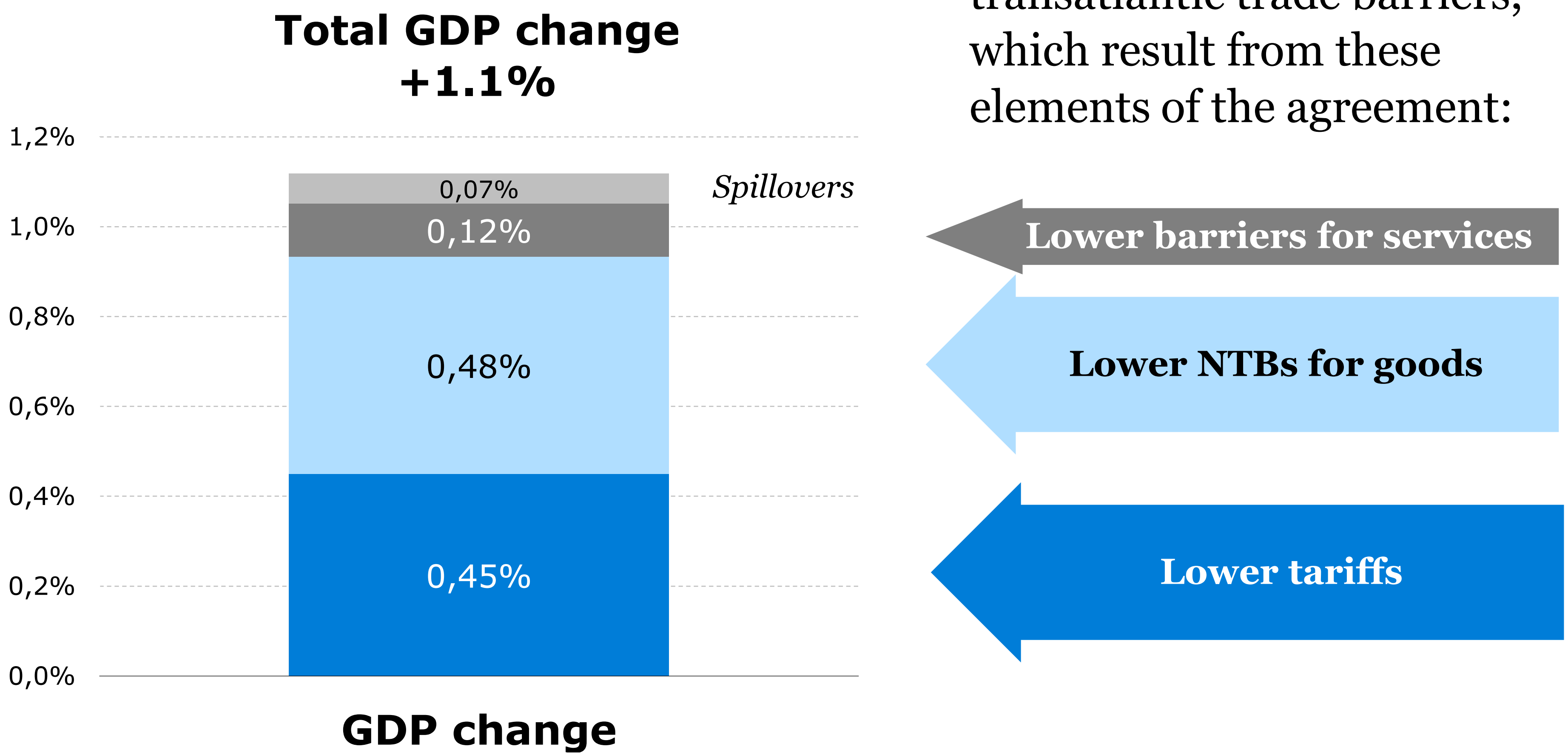
Pct. change from baseline year



Source: Copenhagen Economics based on CGE-simulations by prof. J. F. Francois 2014

Lower tariffs and lower NTBs for goods are main sources of economic impact in Ireland

TTIP implies reduction of transatlantic trade barriers, which result from these elements of the agreement:



Source: Copenhagen Economics based on CGE-simulations by prof. J. F. Francois 2014

Main sectors

Opportunities are expected mainly in...

Manufacturing

- Pharmaceuticals and chemical industry
- Electrical machinery
- Other advanced machinery

Services

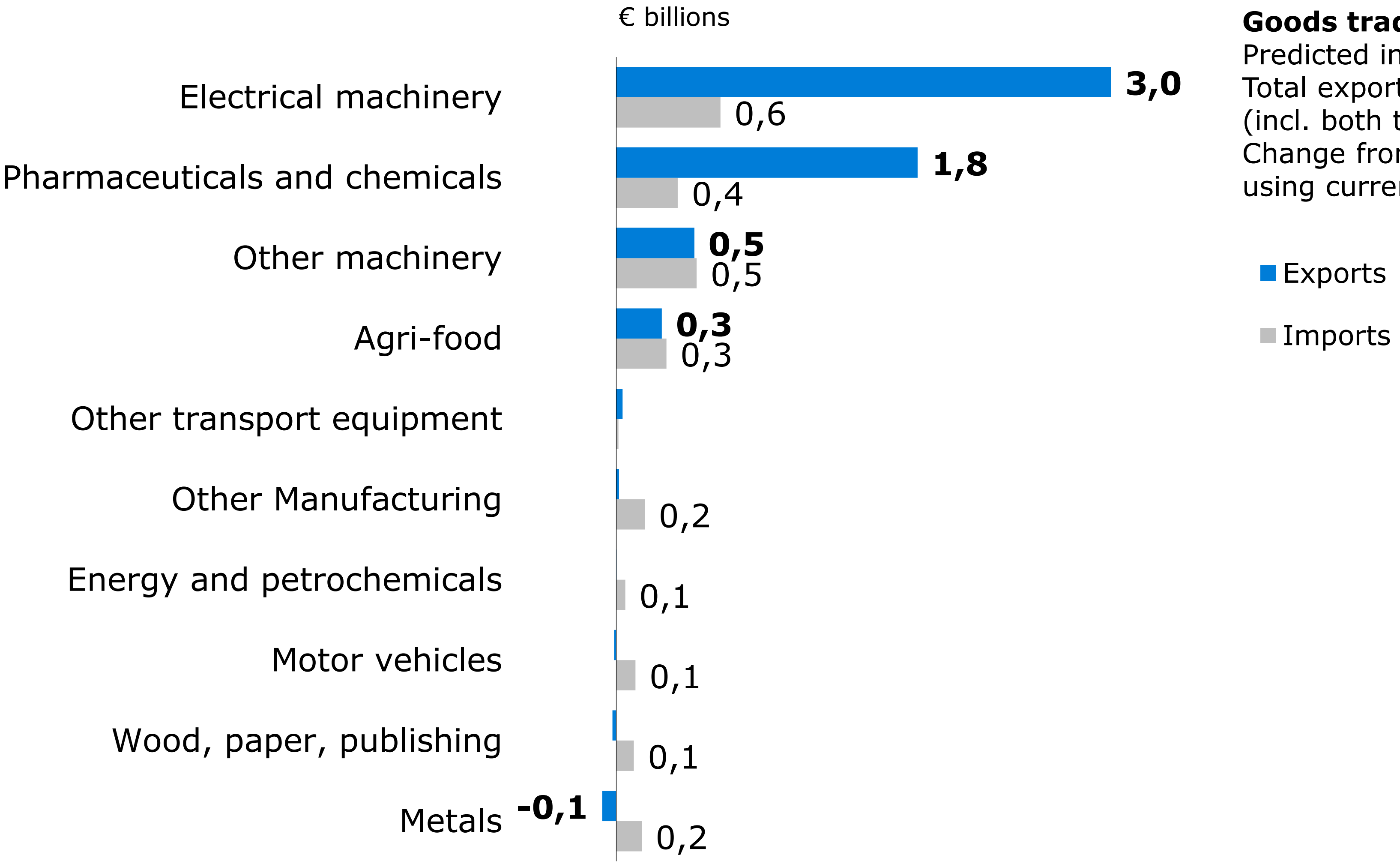
- Insurance

Agriculture and processed food

- Overall increase in exports
- Attention to certain subsectors such as dairy and beef

Impacts in Manufacturing (non-food)

Pharma and electronics are driving the trade effects



Goods trade changes
Predicted increase with TTIP
Total export and import numbers
(incl. both the US, rest of EU and RoW)
Change from baseline, € billions
using current base-year

Note: Change from baseline. Estimates are based on Ireland's trade flows in 2013 according to the CSO.
Source: Copenhagen Economics based on CGE-simulations by prof. J. F. Francois 2014

Impacts in services

Insurance and financial up. Contraction in business service/ICT

- Small increase in overall service exports
- Significant increase in service imports
- Service output largely unaffected

Irish service exports are predicted to increase in

- Insurance (incl. pension funding, except compulsory social security)
- Financial services (financial intermediation)

...while decrease in Irish export of

- Business, professional and ICT services
- Other services

Service barrier estimates

Services	EU	US
Maritime transport	8%	8%
Air transport	2%	2%
Finance	11%	32%
Insurance	11%	19%
Business/ICT	15%	4%
Communications	12%	2%

Source: CEPR (2013) and Ecorys (2009)

Impacts in agri-food
Dairy and processed food up. Challenges in beef.

- Exports of processed foods and dairy go up
- Exports of primary agriculture and beef could go down
- Output in beef and primary may drop 2-3%. Dairy up 2%.

50% tariff reductions
+ NTB reductions

Scenario 1
US quota + 50,000 metric tons

Changes in billion Euro relative to 2013		
	Exports	**Imports**
Primary production	-0.02	0.06
Beef	0.04	0.08
Dairy	0.16	0.07
Processed Food	0.09	0.08
Total	**0.27**	**0.30**

Scenario 2
US quota + 75,000 metric tons

Changes in billion Euro relative to 2013		
	Exports	**Imports**
Primary production	-0.02	0.06
Beef	-0.01	0.13
Dairy	0.17	0.07
Processed Food	0.10	0.08
Total	**0.23**	**0.34**

Copenhagen Economics

Conclusion and closing remarks

Summary

- TTIP will have **a large and positive impact** on the Irish economy
- TTIP will **boost Irish GDP by 1.1%** or €2.0 billion
- **Exports will increase by 3.8%** and require **5.000-10.000 export-related jobs** in Ireland
- **Real wages** will increase by 1.5%
  - slightly higher for **low skilled** (1.9%)
  - Slightly lower increase for high skilled (1.2%)
- **Main sectors of opportunities for Ireland**
  - Pharmaceuticals and chemicals
  - Electrical machinery
  - Other machinery
  - Agri-food (notably dairy and processed food)
  - Insurance

Ireland will have the means and time to adapt

TTIP will strengthen Ireland's most productive sectors
Sector composition will anyway change over time.

There is time to adapt and find appropriate policy responses.

Certain sectors (beef and primary agriculture) will require careful consideration to limit negative impacts:

- Maintain certain tariffs
- Moderate increase of quotas (and consider composition hereof)
- Maintain equivalence of standards – ensure that US imports must meet the same standards as EU producers concerning animal health, traceability and environmental standards and hormone-free beef
- Ensure that meeting EU standards do not have unwarranted negative effects on US exporters

Closing remarks

- Tariffs and NTBs for goods dominate the impact for Ireland, but service barriers are not to be neglected
- The opening of beef and primary agriculture need to be considered carefully, and opportunities for dairy and processed foods needs to be pursued
- Productivity gains from TTIP likely to be important
- TTIP has considerable gains, and requires timely policy considerations to manage the long-term adjustment in particular sectors
- Important to position Ireland’s sectors and companies to pursue opportunities
- The potential benefits are substantial, but hinge on difficult issues: NTB actionability.

This will not be easy.

Contact

Martin H. Thelle
mht@copenhageneconomics.com

Copenhagen Economics A/S
Sankt Annæ Plads 13
DK-1250 Copenhagen K

copenhageneconomics.com