

Consultation on Free Trade Agreements with Australia and New Zealand

The Department of Business, Enterprise and Innovation are currently involved in a consultation on the upcoming FTA negotiations with Australia and New Zealand as the European Commission is seeking views from EU Member States on their offensive and defensive interests in these Free Trade Agreements.

The commission has highlighted the following areas of interest for part 1 of the consultation:

- 1) Non-Agricultural Market Access (NAMA):
 - Specific offensive interests
 - Specific defensive interests
- 2) Agricultural market access (AMA):
 - Specific offensive interests
 - Specific defensive interests

The Irish Exporters Association's Submission to the **Consultation on FTAs with NZ and Australia** submitted to the Department of Business, Enterprise and Innovation has been drafted in consultation with the IEA National Council and IEA members operating in the sector. We acknowledge the assistance Jeffrey Johnston of KPMG in the preparation of this submission.

About the Irish Exporters Association:

The Irish Exporters Association (IEA) assists its members to grow their exports to world markets. We drive and support the growth and development of all exporting businesses based in Ireland. The IEA strategy is to support our members to grow their exports to world markets with 3 main functions:

- **Represent** the needs of members in the development of policy, lobbying, intervention at government level and in the media. Brexit and the Diversification of Export Markets, Cost Competitiveness, the War for Talent and Entrepreneurship are at the core.
- **Trade Services** include practical training, support and consultancy right across the supply chain including customs awareness and audits, export and import compliance, consular, business travel support, route to market and general assistance with trade related queries.
- **Knowledge Networks** support members to: explore new markets, route to market scenario planning, understand customs and supply chain challenges and provide thought leadership through a series of events and webinars. Networking and connectivity remain an important part of membership benefits.

The IEA represent the whole spectrum of companies within the export industry including SME's who are beginning to think about exporting for the first time right through to global multinational companies who are already extensively exporting from Ireland as well as the providers of key services to the sector. It is the connecting force for Irish exporters, providing practical knowledge and support across the Island of Ireland and in foreign markets.

Irish interests in Free Trade Agreements with Australia and New Zealand

Free trade between countries is generally agreed by economists and people in business as a mutually favourable relationship between countries. Economists for centuries have even provided a mathematical proof of the value of free trade by their theories of *Comparative and Absolute Advantage*. However, these proofs are only theoretical in nature and do not account for the potential threats certain industries face by the furthering of free trade.

Irish-Australian Trade

At present, Ireland benefits significantly more from its trading relationship with Australia than Australia does from Ireland. A recent Australian Government publication puts Irish-Australian trade at approximately \$1.92 billion (AUD)¹. Australia approximately exports \$98 million (AUD) to Ireland, whereas we export \$1.82 billion (AUD) to them. However, Ireland's exports to Australia have waned since their 2016 high of nearly \$2.5 billion (AUD). In upcoming EU-Australian Free Trade Negotiations, Ireland really has an opportunity to turn around its recent decline in exports to Australia and return to 2016 levels.

Concerning upcoming trade negotiations, Ireland would be best represented by the EU protecting the following aspects of our interests:

1) Non-Agricultural Market Access (NAMA):

— *Specific offensive interests*

Non-agricultural market access is the area which Ireland holds its most important vested interest in the Australian market. Currently, Ireland's main exports to Australia are medicaments (\$610m), pharmaceutical products (\$326m), miscellaneous manufactured goods (\$273m), and computers (\$121m) – and not agriculture as some might suspect.

Irish industry has growing export opportunities to Australia in the sales of office and automatic data processing machines - an area of industry where Ireland is already strong in its exports and is Australia's third largest import item classification. Similarly, Ireland can seek to increase its already largest export of medicaments to Australia as it is currently Australia's fifth largest import item.

As Ireland is extremely reliant on foreign fuel and resources to power Irish industry, Ireland could benefit greatly from the prospect of cheaper fuel imports from Australia – generally Australia's largest export sector. Intuitively, we wouldn't predict massive threats to Ireland's domestic non-agricultural markets, with Australian beer unlikely to threaten the robust domestic beverage market. Would it be economic to import LNG from that distance and would it for instance help mitigate the run-down of the Corrib gas field. Is there a potential security of supply risk mitigation re Brexit as the balance of our gas supply comes from the UK?

— *Specific defensive interests*

In negotiations, it is important that Ireland's pharmaceutical and medicaments sector is protected. Granted that Australia only exports 8% of the amount [of pharmaceuticals] that Ireland exports to Australia, no real threat seems likely.

¹ <https://dfat.gov.au/trade/resources/Documents/ire.pdf>

Concerning competitiveness, in Australia, the ruling Liberal Party are strongly supportive of competing internationally on corporate tax², however, a corporate tax rate and labour cost that will remain substantially higher than Ireland's should not cause any risk to our competitive edge in this field. Where Ireland faces risk from any foreign country with a pharmaceutical industry, including Australia, is from these countries becoming more attractive to foreign pharmaceutical companies based in Ireland, who may not see Ireland as competitive as they had in the past due to growing wage expectations in the Irish market or a potential lack of qualified graduates to hire.^{3 4} Doing business in Australia may be a mitigation for Brexit if companies are looking to move further afield, particularly into English speaking countries. However, a survey of Canadian services exports found that each 1 per cent increase in distance with a trading partner reduced trade by a third of 1 per cent.⁵ The increased cost to shipping and trade finance obviously affects goods but the cost of travel and possible associated barriers to commerce, such as a lack of shared culture, could thus affect services trade similarly.

2) Agricultural market access (AMA):

— *Specific offensive interests*

Ireland is famously a large agricultural exporter for its size. Dairy and beef are generally Ireland's largest agricultural exports worldwide. Ireland's dairy and beef sectors are generally viewed by markets as premium quality producers, for example, Kerrygold butter is the premium butter internationally found in foreign supermarkets. Irish beef similarly enjoys this prestige, however, reputationally, it has far more competitors than dairy, competing with Argentinian, Brazil, India, Japan, the United States and Australia itself.

— *Specific defensive interests*

One of the top priorities in these negotiations for Ireland is the agricultural sector. Australia has a strong (and unfair) market for agricultural products. Similar to the EU, Australia subsidizes its agricultural sector, making their agricultural sector artificially competitive. For instance, Australia and New Zealand are big producers of dairy products, amongst other agricultural production. Opening up to their markets on agricultural products might not be beneficial for some Irish farmers, especially in light of how low dairy farmers are already paid for their milk here since the end of milk quotas⁶. Depending on what the Irish agricultural sector produces, it would be of interest to these to push to protect their sectors. Additionally, also within agriculture & food sector, protecting specific GIs should be a priority. It's strongly feared in these cases that Irish farmers would be at risk from cheaper agricultural products undercutting them in the European market, which we massively export to.

Ireland should definitively push for a state-to-state and state-to-investor dispute settlement mechanism to be included in the agreement. Especially in light of the plain packaging cases.

² <http://www.abc.net.au/news/2018-03-23/bradbury-senate-government-corporate-tax-rate/9579024>

³ <http://www.skillsireland.ie/Publications/2016/Biopharma-Skills-Report-FINAL-WEB-VERSION.pdf>

⁴ <http://www.thejournal.ie/graduate-jobs-ireland-pharma-skills-2-2918299-Aug2016/>

⁵ <http://www.nber.org/papers/w17630>

⁶ <https://www.agriland.ie/farming-news/12-months-on-from-milk-quotas-whats-changed/>

Irish-New Zealand Trade

Ireland similarly benefits more from its trading partnership with New Zealand ('NZ') than NZ does from Ireland. A recent NZ Government publication puts Irish-NZ trade at approximately \$287 million (NZD)⁷. NZ approximately exports \$52 million (USD) to Ireland, whereas we export \$222 million (USD) to them.

Concerning upcoming trade negotiations, Ireland would be best represented by the EU protecting the following aspects of our interests:

1) Non-Agricultural Market Access (NAMA):

— Specific offensive interests

Non-agricultural market access is the area which Ireland holds its most important vested interest in the New Zealand market. Currently, Ireland's main export to NZ is crude oil and associated products. Ireland is a small player in this overall market and, as a country not rich in oil, our interests in trade negotiations would not be best met defending this market over others necessarily. Rather, Ireland could look at existing export markets where we are already strong, such as pharmaceuticals or IT, and try to increase these commodities' presence in the New Zealand market. Ireland could particularly benefit by breaking into the pharmaceutical market as New Zealand is a large importer, taking most of its US imports (its third largest trading partner) in the form of pharmaceuticals. It does not appear that Ireland or Irish consumers could seek to need many imports from NZ, as most of NZ's exports are agricultural.

— Specific defensive interests

In negotiations, Ireland would not appear to be massively threatened by New Zealand gaining non-agricultural market access to Ireland since NZ is not currently a big player in this field.

2) Agricultural market access (AMA):

— Specific offensive interests

Ireland is famously a large agricultural exporter for its size. Dairy and beef are generally Ireland's largest agricultural exports worldwide. However, as with Australia, caution must be exercised if Ireland is to consider opening the door to trade with New Zealand agriculture, particularly in the dairy sector

— Specific defensive interests

These defensive interests are much the same as set out before with Australia. New Zealand is a highly agricultural society, with famously multiple more sheep on its islands than people.

Conclusion

Free Trade Agreements have generally been beneficial to all parties involved. Canada's economy boomed after joining NAFTA, Ireland has gained massively from its involvement in the EU, and CETA promises much for Canada and EU countries. However, Free Trade Agreements can also bring detriment to certain markets. The Irish fishing industry is now a shadow of its former self since it lost its protection after Ireland joined the European Union. Recognising the risks and rewards of Free Trade, it is critical that Ireland's interests as set out above are protected by the EU in its negotiations with Australia and New Zealand.

⁷ <https://www.mfat.govt.nz/en/countries-and-regions/europe/ireland/>

If you would like to discuss the contents of this submission further, please contact:

Fiona Burke | Communications, Events & Public Affairs Officer
Irish Exporters Association | 28 Merrion Square Dublin 2
Tel: +353 (0)1 642 4171 | Mobile: +353 (0)86 142 3310
E-mail: fionaburke@irishexporters.ie