



Implications for Ireland of EU/US trade deal still unclear

European Commission and White House statements yesterday provided a little more clarity on the EU/US trade deal, but still leave many aspects uncertain. Key for Ireland is that pharmaceutical tariffs of 15% do not look set to apply immediately from August 1st, but rather will follow the conclusion of the US administrations' Section 232 investigation into the sector. US Commerce Secretary Howard Lutnick has said he will report his conclusions on pharmaceuticals in August. Another source of uncertainty is the scope of sectoral carve outs, potentially including important sectors for Ireland such as medical devices, semi-conductor equipment and spirits. A clearer picture of the deal may emerge once a joint EU/US communique is published, expected by Friday, August 1st.

While many Irish firms may face a difficult adjustment to the new 15% tariffs, the negative first-round impact onto aggregate Irish GDP will be limited. Non-pharmaceutical goods exports to the United States accounted for just 2-3% of total Irish goods and services exports of €809bn in 2024. The defensive nature of pharmaceutical exports, with a low price-elasticity-of-demand, means the cost of any tariffs will likely be borne by US consumers with production in Ireland maintained. Pharmaceutical firms may also choose to absorb US tariffs into their profit margins, rather than reduce output.

Many aspects of EU/US trade deal remain uncertain: Yesterday, the White House and European Commission published fact sheets on the EU/US trade deal agreed on July 27th. The key feature is that EU exports will be subject to a single, all inclusive 15% tariff from August 1st. However, many aspects remain uncertain. Further, the EC stated the political agreement is not legally binding and the EU/US still need to negotiate further to implement the deal. A joint EU-US communique is expected soon, perhaps on Friday August 1st, hopefully providing more clarity.

The headline 15% tariff for EU exports is inclusive of existing duties. The Financial Times, reported pre-existing duties averaged 4.8% prior to the April 1st 'Liberation day' tariffs. So the EU-US trade deal could be presented as maintaining the status-quo. That is, the 10% baseline tariffs President Trump had previously announced, on top of the existing duties of 4.8%. However, within the 4.8% average there is a wide distribution across sectors. This means some Irish manufacturing firms will see their tariff rate increase from 10% to 15% from August 1st, others many see little change, or in some cases (e.g. dairy products) fall towards 15%.

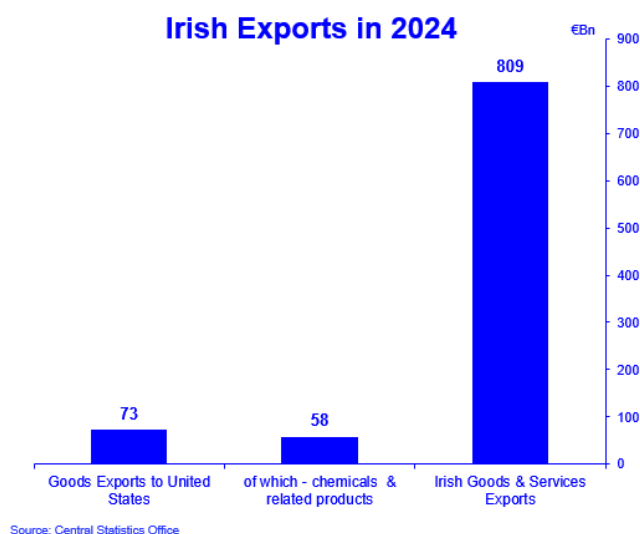
Scope of 'zero-for-zero' tariffs unclear: Tariffs on aircraft, certain chemicals, generic drugs and natural resources will return to pre-January levels. The EC statement indicates negotiations will aim to add further product categories to this list. Media reports have suggested the EU will press for such 'zero-for-zero' tariffs on wines/spirits, and possibly medical devices, both important sectors for Ireland. It is possible tariffs on Irish agri-food and dairy products could fall back towards 15%, but again this is not yet clear. Irish food exports to the US were €958m in 2024 and for beverages €904m.

Status of pharmaceuticals still uncertain: President Trump had created uncertainty by insisting

pharmaceuticals were not part of the EU/US deal. However, the EC statement indicates the 15% ceiling will apply to any potential future US tariffs on pharmaceuticals, including those that may arise from US administrations' 'Section 232' investigation into the sector. For now, pharmaceuticals will remain subject to US 'Most Favoured Nation' (MFN) tariffs. This means Irish pharmaceutical exports will not be subject to 15% tariffs on August 1st, instead remaining at zero. That said, comments from several US administration officials have been interpreted as contradicting the EC's position.

Timing of US Section 232 investigation still unclear: In July, President Trump threatened tariffs up to 200% would soon be imposed on pharmaceuticals, with a 12-18 month delay. However, this threat was not seen as credible by industry experts, likely to lead to shortages of generic medicines in the US. Commerce Secretary Howard Lutnick has said the Section 232 investigation into the pharmaceutical sector will conclude in the coming weeks. This could be a precursor to tariffs on pharmaceuticals, but it is hard to know how credible this deadline is. Since April, several warnings from the US administration that pharmaceutical tariffs would be imposed within weeks have failed to come to fruition.

First round, direct impact onto Irish economy will be limited: Many Irish manufacturing firms will face a difficult adjustment to the new 15% tariff on August 1st. However, non-pharmaceutical goods exports to the US comprised just 2-3% of the total €809bn of Irish goods and services exports in 2024. So the first round negative impact onto aggregate GDP from the 15% tariffs will be limited. Ireland's exposure will grow to 9% of exports, should pharmaceutical tariffs be eventually imposed. However, many pharmaceuticals are non-discretionary consumption goods with a low price elasticity of demand. So firms will be more likely to push-up their US dollar price. Put simply, because Americans must have their medicines, they will likely bear the cost of any US tariffs imposed.



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