



EU/US trade statement provides some clarity for Ireland

Last week's EU/US statement on the trade deal agreed in July provided a little more clarity, but left many questions unanswered. Crucially for Ireland, US pharmaceutical tariffs remain at zero, with the US accepting the 15% 'all-inclusive' rate on EU exports will apply as a ceiling, if tariffs are imposed following the current Department of Commerce Section 232 investigation. So, at face value, Irish pharmaceutical exporters will not be exposed to President Trump's threats of tariffs of up to 250% on the sector. Furthermore, generic drugs will remain exempt. However, sectoral carve-outs for spirits (e.g. whiskey) have not yet been agreed. It's also worth remembering there is little legal basis for the agreement, so its continuation relies on President Trump honouring the terms.

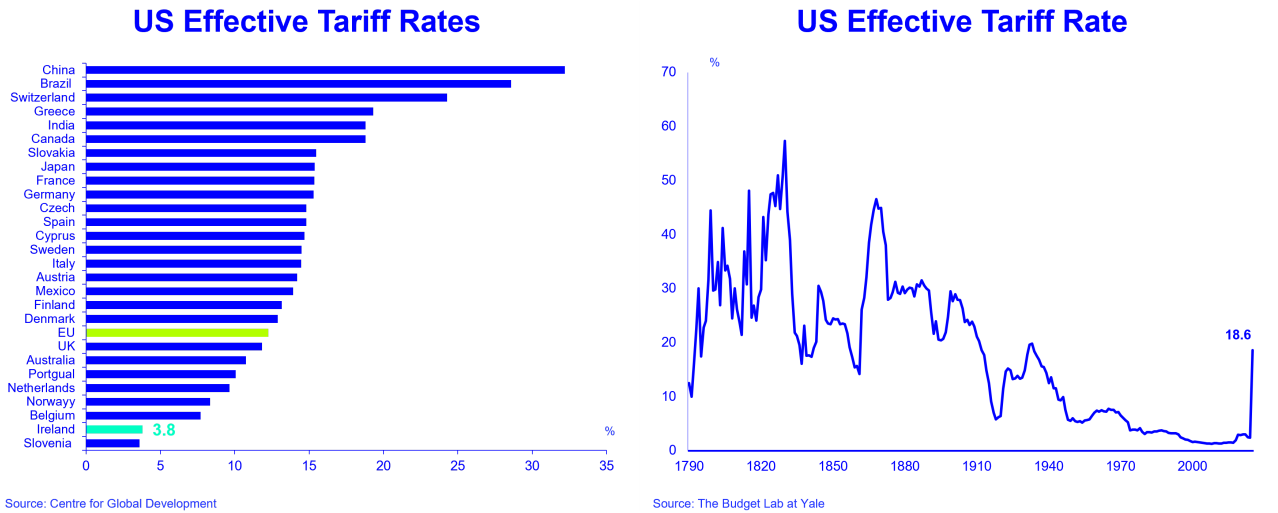
Overall, the 15% all-in tariff represents only marginally negative news to our Irish economic forecasts, given that we had already assumed the 10% reciprocal tariff would remain in place. Adjusting to the new 15% tariff will be difficult for some Irish companies. However, in aggregate, as pharmaceuticals are exempt, Irish exports face one of the lowest effective (trade-weighted) tariff rates across the OECD, estimated by the Centre for Global Development to be 3.8%.

Joint EU/US statement provides some clarity but leaves many questions unanswered: In the main, the EU/US statement published on August 21st confirmed July's agreement. EU exports will be subject to an 'all-inclusive' 15% tariff, that will also act as a ceiling for sectors currently subject to Section 232 investigations by the Trump administration, pharmaceuticals and semi-conductors. There were also important exemptions for aircraft, generic pharmaceuticals and natural resources. Although the deal has been presented as a 'first-step', clearly efforts to include sectors such as wines & spirits in 'zero-for-zero' tariffs have not yet succeeded. Finally, there is little legal underpinning for the deal. So it depends on the US honouring the terms. On Monday, August 25th, President Trump threatened further retaliatory measures against countries that impose digital services taxes and regulations on US tech firms.

Pharmaceutical sector tariffs capped at 15%: The vast majority of Irish goods exports to the US are comprised of pharmaceuticals. President Trump had insisted in early August the EU/US trade deal did not include the pharmaceutical sector. However, the August 21st EU/US statement makes clear pharmaceutical tariffs will remain at zero for now and the 15% rate will act as a ceiling for any future tariffs, following existing Section 232 investigations. So it appears Irish exporters are no longer at risk from President Trump's threats that he will impose tariffs of up to 250% on pharmaceuticals imports, if these were ever realistic.

Ireland's exposure to US tariff's muted compared to other European countries: Some Irish exporters will face a difficult adjustment to a new higher 15% tariff, up from the 10% reciprocal tariff announced in April. However, non-pharmaceutical goods exports to the US accounted for just 2% of total Irish trade in 2024, so the exposure is limited. Hence, the Centre for Global Development estimates that the effective (trade-weighted) US tariff rate imposed on Irish goods exports at 3.8% is amongst the lowest across Europe (see chart below), typically closer to 15% for other EU countries. Indeed, the Yale Budget Lab has estimated the overall US effective tariff rate on imports, as of August 7th, was 18.6%, now at the highest level since 1933.

Forecast assumptions still broadly valid: Our most recent forecasts for the Irish economy published in July, assumed US reciprocal tariffs would remain at 10%, with pharmaceuticals exempt. These were for 8.1% and 3.2% Irish GDP growth in 2025 and 2026 and 2.9% and 2.6% for modified domestic demand respectively. The EU/US trade deal represents marginally negative news relative to these assumptions. Some manufacturing firms may see a higher 15% tariff, vis-a-vis the 10% we assumed. Others (e.g. agri-food) will see their tariffs fall to 15%. Crucially, pharmaceuticals remain exempt. Should US tariffs be imposed on pharmaceuticals, they should be capped at 15%. Pharmaceutical companies are also unlikely to cut back on production in Ireland hurting GDP, given regulatory constraints, the low price-elasticity-of-demand of their products and high profit margins in the sector.



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