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From the Minister

Department of Economic Development

PA

Dr Joe Hendron MP
Curran House
Twin Spires Centre
155 Northumberland Street
BELFAST
BT13 2JF

hc

Secretary
Mr Robinson
Mr Gibson
Mr Gamble
Mrs Heron
MC

new pps on
US misc
issues 599/96

Mr Taylor
in memo O/R
Check - it has
input

20.5.96 pm
23/5

Dear Joe,

I was interested to read your recent article in the Irish News about the idea of creating a "US Free Trade Zone" in Northern Ireland and the border counties of the Republic. Perhaps I could explain the Government's view of the proposal.

When we heard of the efforts of the Pathfinder organisation in Washington to promote the idea of a Free Trade Zone here, we ourselves took a fresh look at the question of feasibility. This revealed that the proposal suffers from insurmountable legal difficulties. Chief amongst these is the nature of the international trading rules to which the EU is fully and formally committed. The EU's common commercial policy means that all member states have the same trade arrangements with non-member states. The EU's free trade agreements with other countries that you mentioned always apply to the Community as a whole. It would not be legally possible for some members to have separate arrangements with non-members. And it is the European Commission, not member states or regions, which has sole competence to negotiate trade agreements for the EU. In any case, the World Trade Organisation's rules stipulate

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that free trade agreements have to cover the whole territory of any state.

These laws are necessary in the first place because of the practical problems that establishing such a free trade zone would create. Goods originating from within the designated zone could not be distinguished from goods from outside the zone (owing to the rules on the free circulation of goods within the EU); and goods for export to the US would inevitably be sucked into the designated zone from the rest of the UK, the Republic and the EU.

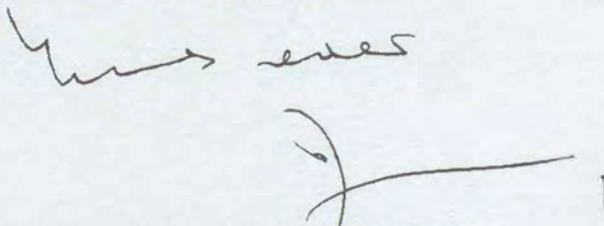
In the light of these factors the Free Trade Zone proposal is clearly not viable and we in Government could not support it. In this context your references to HM Treasury puzzled me. Treasury has not supported Free Trade Zone status of the kind proposed by Pathfinder. Nor has it provided evidence to the Northern Ireland Affairs Committee about such proposals. It has submitted short factual evidence on Enterprise Zones and Free Zones. The latter are, however, wholly different in scale and functioning to the proposal for a Northern Ireland Free Trade Zone.

I should make it clear that our reason for rejecting the free trade zone idea is not that it would breach the UK's fiscal integrity. It would not; as I explained above this is an EU rather than a national matter, and there would be no impact on the revenues of individual member states. Nor are the arguments here comparable to those associated with the Republic's 10% corporation tax rate.

I do, nevertheless, very much agree with what your article says about the need to encourage industrial and commercial activity in

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socially disadvantaged areas, including those in West and North Belfast. The contribution which US investment and trade have already made to economic development in Northern Ireland is immense. There is every reason to expect further major investment and expansion of trade in the future, particularly if a permanent peace can be secured. I am sure the right way forward for us therefore is to continue to foster our contacts with the US and throughout the world, and to help Northern Ireland firms compete effectively within increasingly liberal international trading arrangements.



BARONESS DENTON OF WAKEFIELD
Minister for the Economy and Agriculture