

cc Mr Gibson
Mr Warnock

northern IRELAND

Mr G Loughran
Permanent Secretary
Department of Economic Development
Netherleigh House
Massey Avenue
Belfast BT4 2JP

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ECONOMIC INITIATIVE FOR NORTHERN IRELAND AND BORDER COUNTIES

Introduction

The concept of a Free Trade Zone in Ireland is being revived in the US Congress. It is intended to make it part of a wide-ranging measure designed to further trade and investment in Northern Ireland and the border counties as part of the underpinning of the Good Friday Agreement. Apart from the well-known technical difficulties associated with international trade agreements, the linkage between economic benefits and political progress that are likely to be contained in the proposed legislation seems destined to make the measure contentious in Northern Ireland.

Northern Ireland Bureau

British Embassy

3100 Massachusetts Avenue, NW • Washington, DC 20008-3600

Tel: (202) 588-7840/7841 • Personal Assistant (202) 588-7842 • Fax: (202) 588-7905

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The Bill

The Good Friday Trade and Investment Bill is being sponsored by Congressman Jim McDermott (D-Washington). Much of the thinking behind it appears to come from Tom Rodgers, a member of the Pathfinder group that promoted the original Free Trade Zone idea.

The current text of the Bill (attached) proposes three principal initiatives to help stimulate trade and inward investment in Northern Ireland and the border counties -

- (i) the establishment of an Overseas Private Investment Corporation to provide funding for business development and infrastructure projects (Section 3). The Bill specifies that the Corporation should have assets of \$300 million, (75% of which it is understood would be underwritten by the US Government);
- (ii) increased funding to the International Fund for Ireland - \$30 million for 1999/2000; and \$40 million a year for the four following years (Section 4); and
- (iii) the designation for a ten-year period of Northern Ireland and the border counties as a "beneficiary developing country" under the Generalised System of Preferences (GSP) in respect of which the US would seek a waiver of obligations under the World Trade Organisation and GATT and allow the creation of a free trade area (Section 6). The need for the co-operation of the EC, and both the British and Irish Governments in securing this waiver, is recognised.

In addition, the legislation would require the US Department of Commerce to reorganise its existing activities in a manner (unspecified) that allowed it to promote awareness of business opportunities in Northern Ireland and the border counties, and encourage joint ventures there (Section 5).

There is also a proposal that the US should consider direct grant assistance to communities in the same area that have suffered from terrorist attacks (Section 2(4)).

Conditions attaching to the Bill

There are a number of conditions attached to the Bill's initiatives -

- (i) the assistance provided by the Private Investment Corporation and by the IFI must be deployed in a manner consistent with the principles of fair employment. These 9 principles are defined at the end of the Bill (Section 7(3)) and cover the customary MacBride points (although protection of minority employees while travelling to and from work is not specified; and references to appointing an affirmative action manager have been omitted).
- (ii) at Section 2(b) there is an implicit suggestion that the awarding of funds should also be predicated on the President making periodic statements to Congress on satisfactory progress towards the establishing of an acceptable policing service in Northern Ireland.
- (iii) not only are the main projects for the allocation of IFI funds for 1999-2000 defined in advance (Section 4(a)) but the President is given a central and continuing role in defining future priorities for IFI assistance (Section 4(1)(b); 4(3)).

Other conditions involve the prioritisation by the Private Investment Corporation of projects involving women, and the development of new technologies (Section 3(c)(d)).

Understandably the conditions under which goods are deemed to be eligible for inclusion in the duty free regime are also specified in some detail (Section 6).

Impact of the Bill's provisions

On the face of it, these provisions represent a potentially valuable means of stimulating economic development in Northern Ireland on a significant scale. The prospect of Northern Ireland and the border counties being able to export over 2000 items to the US market on a duty-free basis under the GSP is sufficiently attractive in its own right to attract considerable public support. Beyond that, if US practice is followed, it seems probable that the Private Investment Corporation's assets (if established) would be used to leverage loans at a gearing of around 4:1, thus creating a potential fund in excess of \$1 billion; while the increase in IFI funding is generous by any standard.

Taken at face value, therefore, it is a very attractive package, and if Pathfinder mobilises its cheerleaders once more, it is a package that will attract popular support in Northern Ireland. Not all the political parties will resent the linkages between political progress and payment, while others may consider the potential rewards too great to be risked by narrow-minded adherence to technical scruples. On the other hand, the precise depth and accessibility of the pot of gold will have to be assessed; and Willie McCarter's Board may have views on the trade-off between the extra funds and loss of operational independence. The Irish Government, which stands to accrue benefit to the border counties without anguishing over the MacBride or policing preconditions, seems unlikely to allow the package to be dismissed out of hand.

Status of the Bill

The Bill as outlined above fell at the end of the Congressional session in October, but it is the intention of Congressman McDermott to revive it for the new session, beginning in January. He proposes to attach the Bill to a new general Trade measure (possibly a revival of last year's failed fast track initiative) and in that context have it voted through without too much Congressional attention being paid to the financial requirements. On the assumption that no such initiative will run in a Presidential election year, McDermott's staffers are predicting that any significant trade measure will have to be pushed through by the middle of 1999, or else be delayed until 2001. There is at present no means of assessing whether or not this proposed procedure and timetable are viable.

What can be predicted with reasonable certainty is that, in order to build a base of support for the measure, McDermott will be open to pressure from Congressional colleagues. McDermott himself is interested in trade promotion, rather than Ireland per se. His staffers are aware of the desirability of minimising the political aspects of the Bill that would be found difficult in Northern Ireland, and have professed themselves receptive to advice in this regard. However, ours will not be the definitive voice - some of the more contentious language in the present draft is acknowledged as coming from Ben Gilman's office, and as the latter during the course of next year develops his campaign for policing reform in Northern Ireland, such pressures seem likely to increase. And it would be safe to assume that other discordant voices will be added to the chorus.

Next Steps

In the short term, we will attempt at this end to get further and better details of how the proposals set out above might be expected to operate. (For instance, precisely how in practical terms it is proposed to bring the Free Trade proposals line with EU, GATT and WTO requirements, and how the Investment Corporation is to be set up). In the meantime, an initial reaction to the proposals from DED and the wider Northern Ireland system would be helpful. Assuming the legislation progresses as indicated, are there particular areas where efforts should be focussed to procure more satisfactory language? Can we tie this in with opposing the latest MacBride upsurge in California?

Beyond that, the objective should be to get the Assembly or the new Government involved in shaping the Bill, although the timetable for such action may be difficult. Again, any thoughts from your side would be appreciated.

An extensive circulation list is difficult to organise from here on Christmas Eve. Could I ask you to distribute as you feel appropriate?

Peter Smyth (Dr)
Director, Northern Ireland Bureau

cc. **PUS, NIO**
Mr Ferguson, Cent Sec
Mr Todd, IFI