The art of a US-UK trade deal

Policy Exchange

Realising the opportunities and overcoming the challenges

Stephen Booth and Dominic Walsh

The art of a US-UK trade deal

Realising the opportunities and overcoming the challenges

Stephen Booth and Dominic Walsh

Policy Exchange is the UK's leading think tank. We are an independent, non-partisan educational charity whose mission is to develop and promote new policy ideas that will deliver better public services, a stronger society and a more dynamic economy.

Policy Exchange is committed to an evidence-based approach to policy development and retains copyright and full editorial control over all its written research. We work in partnership with academics and other experts and commission major studies involving thorough empirical research of alternative policy outcomes. We believe that the policy experience of other countries offers important lessons for government in the UK. We also believe that government has much to learn from business and the voluntary sector.

Registered charity no: 1096300.

About the Author

Stephen Booth is Head of the Britain in the World Project. He was previously Director of Policy and Research at the think tank Open Europe. A specialist in UK-EU affairs, he has written extensively on the UK-EU trade relationship, regulation, and immigration policy. He has appeared regularly in the media and to give evidence to several parliamentary select committees. His work at Policy Exchange focuses on the UK's economic relationships with Europe and the rest of the world.

Dominic Walsh is a Research Fellow working for the Britain in the World project at Policy Exchange. He joined in 2020 from the former think-tank Open Europe, where he wrote multiple reports on Brexit. He has also been a contributor to broadcast and online media, including BBC News, the Spectator, the New Statesman and Times RedBox. He holds an MA in Politics and Contemporary History from King's College London, and a BA in History from Durham University.

Published by
Policy Exchange, 8 – 10 Great George Street, Westminster, London SW1P 3AE

www.policyexchange.org.uk

ISBN: 978-1-913459-32-1

Contents

Summary

The Department for International Trade (DIT) has opened official trade negotiations with the United States – undertaken on a virtual basis, due to the ongoing Covid-19 pandemic. Two rounds have been completed so far, with a third expected at the end of July.

While an immediate breakthrough is not expected, the launch of the talks marks a significant milestone in the UK's post-Brexit trade strategy. The US is the UK's second largest trading partner after the European Union, and one of the Government's top priorities for a Free Trade Agreement (FTA). It is also the world's largest economy, and – despite premature talk of decline – is likely to remain the leading global superpower for some time.

Opportunities

- **A UK-US FTA would be a key pillar of the Government's 'Global Britain' agenda as it leaves the EU and seeks to diversify and deepen the UK's international relationships.** Brexit emphasises the need for the UK to recalibrate its relationships with the world's three major economic and geopolitical hubs – North America, Asia-Pacific, and Europe. Agreeing high-standard rules with likeminded partners, particularly in the new and emerging economic industries, would support the principles of the market economy in an increasingly contested world. On both sides of the Atlantic, the value of a UK-US deal is therefore as much geostrategic as it is commercial.
- **Conducting US, EU and other negotiations in parallel is an opportunity for the UK to triangulate the demands of different partners.** This will allow the Government to make strategic choices with a clear understanding of the trade-offs involved. Moreover, given that EU-US trade negotiations stalled several years ago, there is a political advantage in being seen to succeed where the EU failed – and an economic benefit in first-mover advantage.
- **The modelled macroeconomic boost to UK GDP of a US deal is not transformative, but there are significant opportunities in specific sectors.** Reducing barriers to imports would reduce costs and increase choice for consumers, while export sectors that are highly regulated or subject to high trade barriers could stand to gain. Key examples include:
  - **Goods:** while on average US tariffs are low, there are exceptions where UK exports would stand to gain from liberalisation

– notably the food and drink industry (particularly Scotch whisky), cars, and ceramics.

- **Services:** while there is significant services trade between the UK and US, only 20% of UK service companies which export internationally do so to the US, suggesting considerable room for improvement.
- **Data and digital trade:** The world has entered a new period of digital globalisation and cross-border data flows now rival traditional trade in goods in generating economic value. In this area, the US and China are the dominant players. The US is both the world-leader and has led the way in advocating openness in digital trade. The UK and the US can expect to achieve more than was possible under the EU's trade regime, since many EU member states have taken a less liberal approach to data flows than the UK.

Challenges

- **Agriculture liberalisation is politically controversial in the UK, but no US administration will do an FTA with the UK without it.** This is as true of a potential Biden administration as it is of one led by President Trump. Improving market access for US agriculture exports is a bipartisan interest. Equally, there is significant political resistance to agricultural liberalisation in the UK.
- **Although the threat of a US trade deal to the National Health Service is overblown, there is a genuine disagreement over drug pricing.** A US FTA will not lead to the NHS being "sold off" to the US or ceasing to become free at the point of use, but the US is likely to demand reforms to drug pricing within the UK healthcare system.
- **The US may seek to use an FTA to influence the UK's China policy.** In particular, the US may insist on a version of the 'China clause' contained within the US-Mexico-Canada agreement (USMCA), which allows one party to walk away if another signs a trade agreement with a 'non-market economy.'
- **There have been political disagreements between the UK and US governments** – most notably over the UK's recent decisions to implement a new tax on digital services and allow Huawei a share in the 5G network. However, the Government has recently announced that it will ban new Huawei equipment from the 5G network from the end of this year and remove existing equipment from the network by 2027.
- **It is unlikely that a full FTA will be agreed before the US election in November.** Trade negotiations take time, and a mutually beneficial agreement will not be straightforward given the challenges. Both sides accept this reality; in recent weeks, US Trade Representative Robert Lighthizer has said it is "unlikely" the US will reach an agreement with the UK before November, while

UK International Trade Secretary Liz Truss has said that the UK has not set a timetable for a deal.[1] It may be possible to strike an initial "mini-deal" in the coming months, but this would not be a substitute for a comprehensive FTA.

Policy Recommendations

To realise the opportunities and overcome the challenges, the Government should:

1. **Continue to prioritise a US trade deal, alongside deals with other partners.** Aside from purely economic considerations, trade agreements can be a useful strategic tool of foreign policy, and will be seen as a symbol of Britain's new place in the world after Brexit. As well as the US, the UK should also continue negotiations for mutually beneficial deals with the EU, Japan, Australia, New Zealand, and the other members of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).
2. **Prioritise boosting transatlantic trade in high-growth industries of the future,** such as digital services, financial services and technology. A comprehensive digital chapter would promote innovation and help shape global rules in a dynamic and fast-moving area of future growth.
3. **Agriculture should be liberalised, but this should be done sensitively.** Options that the UK could propose include phasing in tariff liberalisation gradually, and using tariff-rate quotas, 'conditional tariffs' or safeguards as tools for piecemeal liberalisation. It is also important to distinguish between the competitive threat to producers and consumer concerns regarding the way products are made, including issues such as animal welfare. The starting points should be to ensure consumer safety and promote consumer choice. The UK already has the right, under World Trade Organisation rules, to prohibit the imports of unsafe food. Labelling, either via domestic legislation or voluntary certifications, can be used to inform consumers of food production methods for particular products. The UK should adopt a cooperative approach to addressing animal welfare concerns with relevant trading partners through consultation and efforts to create multinational agreements. However, blanket bans on the import of agri-food products, not supported by scientific evidence, will be viewed as a protectionist move by both the US and other international partners, and will make the conclusion of trade agreements more difficult. Meanwhile, it should also be remembered that agricultural liberalisation is an opportunity for some UK exports, particularly beef and lamb.
4. **Domestic and international policies for agriculture must be joined up.** Liberalising trade in agricultural produce should be coupled with policies on regulation, subsidies and land management which drive innovation and competitiveness in the farming industry

1. *BBC News*, 'US says a UK trade deal 'unlikely' before November,' 17 June 2020: https://www.bbc.co.uk/news/business-53084467; *Reuters*, 'UK says no deadline for U.S. trade deal, talks tough on terms', 24 June 2020: https://uk.reuters.com/article/uk-britain-eu-trade-usa/uk-says-no-deadline-for-u-s-trade-deal-talks-tough-on-terms-idUKKBN23V245?il=0

as the UK leaves the EU's Common Agricultural Policy (CAP). Rather than the CAP's approach of subsidising agricultural land regardless of productivity and competitiveness, the UK should continue to follow the principle of "public money for public goods", as proposed in the Government's Agriculture Bill and its emerging Environmental Land Management scheme. Freed-up land that fails to compete commercially in current usage can then be switched to more commercially productive and/or environmentally valuable purposes. The goal should be a more environmentally oriented, whilst far more productive and competitive, agricultural system.[2]

5. **Engage in wider trade promotion and lobbying in the US, outside the context of an FTA.** This is particularly important with regard to services trade and procurement, where many regulatory barriers to transatlantic trade and investment are at US state-level rather than federal level and are unlikely to be fully liberalised in an FTA. It can also be applied to agricultural and environmental standards in the agri-foods supply chain.
6. **The UK should resist any US demands to increase the price the NHS pays for drugs.** Maintaining this red line will not necessarily prevent a deal; in previous trade negotiations, notably with Australia, the US has softened its demands on drug pricing to get a deal over the line.
7. **US attempts to influence UK China policy should be considered carefully, but a USMCA-style 'China clause' need not be a deal breaker.** Such a provision would not necessarily rule out a UK FTA with China (if seeking one was UK policy, which it is not), it would simply mean that there would be consequences for doing so in terms of the UK's relationship with the US (which, as the Huawei dispute illustrates, is likely to be true in any case).
8. **Extract a price for any concessions on the digital services tax.** Although disagreements here are potential political obstacles to a deal, they may also provide the UK with negotiating cards to trade away.
9. **The Government is right not to treat the Presidential election as a deadline; the right deal is better than a quick deal.** Many US trade priorities are bipartisan, and the challenges, opportunities and strategic rationale for a deal will remain even if there is a change in government in November. A pre-election mini deal should not be ruled out but the fundamental goal should be for a comprehensive FTA, even if this takes more time. A more pressing date to consider is July 2021, when the President's authority to negotiate and fast-track FTAs through Congress expires and will need to be renewed.
10. **The UK should pursue unilateral liberalisation alongside free trade agreements with the US and others.** Beneficial unilateral reforms are likely to do more for the welfare of consumers and the global competitiveness of the UK economy than any individual bilateral agreement. They should continue to be identified and pursued as part of normal UK policy processes over the medium-term, and need not necessarily be delayed as bargaining positions for bilateral negotiations.

2. *Policy Exchange*, 'Farming Tomorrow', 1 August 2017: https://policyexchange.org.uk/publication/farming-tomorrow/

Background

It is widely acknowledged that the economic benefits of trade liberalisation are greatest if liberalisation is undertaken multilaterally. However, multilateral efforts at the World Trade Organisation (WTO) have faltered. Meanwhile, a trend towards the use of tariffs and other protectionist measures has increased in G20 countries since the Global Financial Crisis and there are signs that the protectionist trend could accelerate in the wake of Covid-19. A combination of these factors has led to a proliferation of bilateral or regional trade agreements.

In the absence of, or as a compliment to, multilateral liberalisation, Policy Exchange has championed the principles of unilateral trade liberalisation. In 'Global Champion: The Case For Unilateral Free Trade', Policy Exchange highlighted that the biggest economic benefit of trade comes from lowering barriers into one's own economy in order to reduce costs and increase choice for consumers, encouraging competition and boosting domestic productivity.[3] To put it another way, a tariff on imports is equivalent to a tax on exports, since tariffs distort domestic prices and raise the cost of production inputs.

These principles also apply to bilateral, reciprocal agreements in that these agreements also provide for domestic liberalisation. The perceived advantage of reciprocal agreements is that, by definition, they simultaneously entail a degree of market opening for exporters. Trade agreements are also increasingly used to go further on other issues besides tariffs. Services, investment and regulatory cooperation are all areas that can be addressed in such an agreement. In an increasingly uncertain global economic climate, where protectionism is potentially on the rise, the value of locking in legal commitments to trade liberalisation in FTAs is likely to increase.

However, the drawback of free trade agreements is that they can be costly for businesses to use. To take advantage of preferential tariffs, firms must demonstrate compliance with the rules of origin set out in each agreement. As a consequence, some firms elect to trade without using the preferences negotiated within a trade agreement.[4] Unilateral liberalisation has the major advantage of being within a government's own control.

The Government has recently published the new UK Global Tariff to replace the EU's Common External Tariff (CET), which will come into effect at the end of the Brexit transition period on 1 January 2021.[5] This tariff schedule will be applied on the WTO's Most Favoured Nation (MFN) basis to UK imports from across the world, with the exception of any preferential tariffs that are agreed under free trade agreements. The new schedule therefore also forms the baseline for any future UK offer of tariff

3. *Policy Exchange*, 'Global Champion: The Case for Unilateral Free Trade', February 2018: https://policyexchange.org.uk/wp-content/uploads/2018/02/Unilateral-Free-Trade.pdf
4. Dan Ciuriak and Jingliang Xiao, 'Should Canada unilaterally adopt global free trade?', *Canadian Council of Chief Executives*, May 2014: http://www.ceocouncil.ca/wp-content/uploads/2014/05/Should-Canada-unilaterally-adopt-free-trade-Ciuriak-and-Xiao-May-20141.pdf
5. *Department for International Trade*, 'UK Global Tariff backs UK businesses and consumers', 19 May 2020: https://www.gov.uk/government/news/uk-global-tariff-backs-uk-businesses-and-consumers

liberalisation in multilateral or bilateral negotiations.

The independent UK schedule replicates the EU's CET in several sensitive sectors such as cars, agricultural products, fish and ceramics, but removes tariffs on many supply chain components and consumer goods.[6] While this represents a more liberal approach to tariffs than under the CET, it is less liberal than the Temporary Tariff Regime approach under the Government's previous 'No Deal' plans.[7] According to the Government, 60% of goods imported to the UK will be tariff free under WTO terms or existing free trade agreements,[8] compared to 88% under the previous No Deal plans.

The Government has made clear that concluding free trade agreements is a top priority for Britain as it leaves the EU. The 2019 Conservative Manifesto stated an aim to have 80% of UK trade covered by free trade agreements within three years, with the US, Australia, New Zealand and Japan earmarked as early priorities for negotiations.[9] At the same time, the UK is seeking to reach an agreement on the future UK-EU trade relationship.

There is an argument that retaining tariffs in certain sectors gives the UK bargaining power in bilateral negotiations. Indeed, the Theresa May Government found that the liberal approach taken under its preparations for a No Deal exit meant that some countries saw little immediate gain in (re)negotiating trade agreements with the UK, most notably in the failure to rollover the EU-Canada trade agreement.[10] Equally, the decision to retain the EU's 10% tariff on cars helped seal the successful rollover of the EU-South Korea FTA.

On the other hand, delaying unilateral reforms comes with an opportunity cost. The Australian Productivity Commission, in a major review of Australia's bilateral and regional trade agreements, noted the potentially counterproductive effects of delaying domestic reforms to preserve "negotiating coin" – the ability to trade off tariff reductions in the context of a specific set of trade negotiations.[11] Australia differs from the UK in that it has undertaken a long process of tariff liberalisation, including in the field of agriculture, whereas the UK inherits the EU's CET as its starting point.

The UK appears to have taken the view that the immediate priorities are to preserve some leverage in negotiations for reciprocal agreements, retain some protection on sensitive domestic sectors, and preserve preferential treatment afforded to exporters in developing countries. However, it remains the case that an ambitious agenda for negotiating trade agreements should be coupled with unilateral domestic reforms, such as to the UK's tariff and regulatory framework. Beneficial unilateral reforms should continue to be identified and pursued as part of normal UK policy processes over the medium-term, and need not necessarily be delayed as bargaining positions for possible future negotiations. The experience of Australia, Canada, New Zealand and Singapore, illustrates that unilateral reform can be coupled with the conclusion of trade agreements. As Policy Exchange previously argued in 'Global Champion', there is little evidence that countries which start highly protected have a better record in trade negotiations than those which do not.[12]

6. *Ibid*
7. *Department for International Trade*, 'Temporary tariff regime for no deal Brexit published', 13 March 2019: https://www.gov.uk/government/news/temporary-tariff-regime-for-no-deal-brexit-published
8. This figure assumes no additional free trade agreements are concluded.
9. *Conservative Party*, 2019 Manifesto, p. 57: https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf
10. Janyce McGregor, 'Now that Brexit's a go, how about that Canada-UK trade deal?', *CBC News*, 14 December 2019: https://www.cbc.ca/news/politics/brexit-canada-saturday-1.5396420
11. *Australian Government Productivity Commission*, 'Bilateral and Regional Trade Agreements: Productivity Commission Research Report', November 2010, pp. 214-216: https://www.pc.gov.au/inquiries/completed/trade-agreements/report/trade-agreements-report.pdf,
12. *Policy Exchange*, 'Global Champion: The Case for Unilateral Free Trade', p. 41, February 2018.

The big picture: why is a US deal significant for Global Britain?

Aside from purely economic considerations, trade agreements can be a useful strategic tool of foreign policy, and will be seen as a symbol of Britain's new place in the world after Brexit. This is particularly true with regard to the US, which remains the UK's most important bilateral relationship.

The Government is right, therefore, to place a trade deal with the US as a key plank of its 'Global Britain' agenda. Brexit emphasises the need for the UK to diversify its international relationships, and ensure it is plugged into all three of the world's major economic and geopolitical hubs – North America, Europe, and the Asia-Pacific. In this context, the value of strengthening trade ties with the US is as much about geopolitics and Britain's place in the world as it is about economics. Moreover, at a time when the Covid-19 crisis has exacerbated the slowdown in global trade and ushered in a wave of protectionist measures, it is more important than ever that the UK makes the case for free trade.[13] Diversifying trading relationships can also increase national resilience, by avoiding over-dependence on any one partner.

It is also notable that the US negotiations will overlap with UK-EU talks. Conducting trade negotiations in parallel will allow the Government to ensure that the UK's trade strategy is joined up and allow policymakers to triangulate the demands of different partners – not just the EU and the US but also key partners in the Asia-Pacific region, such as Japan (with whom the Government has recently commenced negotiations). If EU and US demands – such as on agricultural regulation – prove to be in competition with one another, a parallel approach enables the Government to make strategic choices with a clearer understanding of the trade-offs involved. Moreover, given that EU-US trade negotiations stalled several years ago, there is a political advantage in succeeding where the EU failed – and an economic benefit in first-mover advantage.

Progress in talks with the US could play an indirect role in the EU negotiations.[14] For example, on the thorny question of level-playing field in the EU talks, the UK has signalled that it does not want the FTA's dispute resolution mechanism to apply to commitments on labour and environmental standards. Its mandate for the US, by contrast, indicates that such commitments *should* be enforceable through dispute resolution.[15] This apparent inconsistency could send a useful message to the EU; that independent enforcement mechanisms would be acceptable if the

13. *World Trade Organisation*, 'Trade set to plunge as COVID-19 pandemic upends global economy', 8 April 2020: https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
14. Stephen Booth, 'We must not allow the EU to bind our hands in trade negotiations with other partners', 5 March 2020: https://www.conservativehome.com/thecolumnists/2020/03/stephen-booth-we-must-not-allow-the-eu-to-bind-our-hands-in-trade-negotiations-with-other-partners.html
15. *Department for International Trade*, 'UK-US Free Trade Agreement', p. 11: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869592/UK_US_FTA_negotiations.pdf

underlying obligations are reasonable. More broadly, if the US talks progress successfully, this would illustrate to the EU that the UK has a deal with the US ready to go in the event of a UK-EU breakdown, though the utility of this as leverage should not be overstated.

On the US side, the advantages of a deal with the UK are not purely commercial; the UK makes up 6% of US exports, whereas the US makes up 20% of UK exports.[16] For the Trump administration, a deal with the UK would be an opportunity to pull a G7 economy out of the EU's regulatory orbit, on issues such as agriculture and data.

16. Ed Balls, Nyasha Weinberg, Jessica Redmond and Simon Borumand, 'Will Prioritising A UK-US Free Trade Agreement Make Or Break Global Britain? Transatlantic Trade and Economic Cooperation through the Pandemic', *Harvard Kennedy School*, May 2020

The opportunities of a US deal

The Government's modelling suggests a US FTA would provide an increase to UK GDP of between 0.07% to 0.16% over the next 15 years.[17] However, modelling the effects of liberalising non-tariff barriers, which is where the biggest gains of a US-UK deal are likely to materialise, is difficult. Other benefits of trade liberalisation, such as increased consumer choice, are also difficult to capture in traditional economic statistics.[18]

The volume of UK-US trade is already considerable, even without an FTA. In 2018, the US accounted for 19% of all UK exports, the largest outside the EU and more than any single EU country. Moreover, despite temporary measures introduced by the current administration, US tariffs tend to be low – according to the Department for International Trade, the average tariff on UK goods exported to the US is 4%, whereas the average UK tariff on US goods imports under the EU's Common External Tariff was 6%.[19] The US also has a relatively open economy (with notable exceptions on procurement and some services where individual state regulators have a prominent role). The greatest opportunities will therefore be in those sectors where barriers to trade remain high.

Goods

For UK goods exports, one top priority is the removal of a punitive 25% tariff that was imposed on Scotch whisky in the wake of the Airbus subsidy dispute; exports of Scotch to the US were worth £1bn in 2018.[20] Second, while agriculture is seen as a potential obstacle to a deal in terms of imports, there are opportunities for UK farmers to export more produce to the US. British lamb and beef, for example, were subject to import bans until recently and remain subject to high tariffs. Other exporting sectors which currently face high barriers and would stand to benefit from an FTA could include pharmaceuticals, cars and ceramics. Equally, increasing imports from the US in sectors where the UK currently has high external trade barriers (for example, the UK's new tariff schedule has retained the EU's 10% tariff on cars) could provide greater consumer choice, increasing the range and diversity of goods available.

Previous EU-US negotiations over the Transatlantic Trade and Investment Partnership (TTIP) stalled over the EU public debate, including within the UK, over the impact on food safety and other regulatory concerns, though subsequent progress has been made in some areas. For example, in March 2017, the US and the EU amended a 1998 EU-US Mutual Recognition Agreement to allow for regulators to rely upon each other's inspections of pharmaceutical manufacturing facilities to avoid

17. *Department for International Trade*, 'UK-US Free Trade Agreement', p. 32
18. *Policy Exchange*, 'Global Champion: The Case for Unilateral Free Trade', February 2018.
19. *Department for International Trade*, 'UK-US Free Trade Agreement', p. 43
20. *BBC News*, 'What impact will US tariffs have on Scotch whisky?', 18 October 2019: https://www.bbc.co.uk/news/uk-scotland-scotland-business-50054964

duplication of inspections.[21] Broadly, the UK is more closely aligned with the US approach to regulatory issues than the EU but the extent to which a UK-US deal could realise further gains from regulatory cooperation will depend to some degree on the UK's willingness to depart from the EU approach in its domestic legislation.

Services

Services are also a major offensive interest, given their weight within the UK economy. The UK is seeking an ambitious services chapter, including regulatory co-operation, recognition of professional qualifications and greater mobility for business people (for example by making intra-company staff transfers and short-term business stays easier). While there is significant services trade between the UK and US, only 20% of UK service companies which export internationally do so to the US, suggesting room for significant improvement.[22] The Government's update on the first round of negotiations highlighted services trade as an area where there was "mutually high ambition" between the parties.[23]

However, realising potential growth in UK-US services trade may require additional trade promotion and lobbying in addition to an FTA; US FTAs tend to contain limited provisions on services, and large parts of the US services market – including professional qualifications – are regulated at state level. British business groups, such as the Confederation of British Industry (CBI), have called for the Government to ensure any FTA is accompanied by increased UK lobbying of US state and municipal authorities on market access barriers.[24] Other potential opportunities will require engagement with Congress. For example, easing access to US residency for skilled British workers could allow UK firms to expand their commercial presence in the US – but the current terms of the Trade Promotion Authority (TPA) prevent US negotiators from altering immigration rules in FTAs.[25]

Some services issues that were previously complex in TTIP negotiations may be less so in UK-US negotiations. For instance, "cultural exceptions" were controversial in TTIP due to the interest of countries like France in protecting its audio-visual sector.[26] The US mandate for the UK also does not propose the inclusion of an Investor-State Dispute Settlement mechanism, which was arguably the single biggest stumbling block in the TTIP negotiations.[27]

Financial and digital services

An FTA could also be an opportunity for the UK and the US to boost trade in high-growth industries of the future, such as digital trade, financial services, and technology, where both countries are world leaders and activity is heavily regulated. Enhanced regulatory co-operation is an opportunity to promote innovation and consumer choice in both countries, and to help shape global rules. In dynamic and fast-moving areas such as these, the key to success will be the establishment of frameworks for ongoing co-operation as much as the provisions of the FTA itself. For example,

21. Shayerah Ilias Akhtar, 'U.S.-UK Free Trade Agreement: Prospects and Issues for Congress,' *Congressional Research Service*, 14 April 2017: https://fas.org/sgp/crs/row/R44817.pdf
22. *Department for International Trade*, 'UK-US Free Trade Agreement', p. 42.
23. *HM Government*, 'Negotiations on the UK's future trading relationship with the US: Update', 18 May 2020: https://www.gov.uk/government/news/negotiations-on-the-uks-future-trading-relationship-with-the-us-update
24. *CBI*, 'A roaring trade: Capitalising on the opportunities of a UK-US Free Trade Agreement,' March 2020, p. 6: https://www.cbi.org.uk/media/4614/a-roaring-trade-capitalising-on-the-opportunities-of-a-uk-us-fta.pdf
25. *Ibid*, p. 13.
26. Shayerah Ilias Akhtar, 'U.S.-UK Free Trade Agreement: Prospects and Issues for Congress,' *Congressional Research Service*, 14 April 2017: https://fas.org/sgp/crs/row/R44817.pdf
27. *International Trade Committee*, 'UK-US Trade Relations', 1 May 2018, Chapter 7: https://publications.parliament.uk/pa/cm201719/cmselect/cmintrade/481/48110.htm#_idTextAnchor085

on financial services, a framework for regulators, the US Department of the Treasury and HM Treasury would create important forums to discuss market access and regulatory barriers, building on existing frameworks such as the UK-US Financial Regulatory Working Group.

Digital services and data-driven industries are another key area of opportunity; research has shown that global cross-border data flows now generate more economic value than global trade in goods.[28] The US has led the way in advocating for openness in digital trade; the United States-Mexico-Canada agreement (USMCA) includes some of the strongest disciplines on digital trade of any international agreement.[29] Up to now the UK has been a participant in an EU approach that contains many exceptions to liberalisation in areas such as data movement.[30] Unlike some EU member states, both the UK and the US have traditionally prioritised the free flow of data and opposed the introduction of so-called "localisation" requirements, which require data produced in one country to be processed there.[31] A free trade agreement between the two is therefore an opportunity to shift global standards on data and digital trade in a pro-free trade direction.[32] This is also another example of the potential geopolitical value of a US-UK deal, given that China – the US' main rival as a world-leader in data – is implementing localisation restrictions on data, with a number of other countries following suit.

More broadly, it is worth highlighting that the US is the world leader in digital services. According to Forbes, 12 of the world's top 20 digital companies are American, including 8 of the top 10. A further 7 of the top 20 are based in China or Asia, with just one in Europe.[33] A recent European Parliament report warned, "One of the largest problems Europe will face in the next two decades is that most of the largest tech providers in the world are based in the United States and China, and their dominance in the sector will be consolidated by the shift to AI."[34] In this context, a comprehensive chapter on digital trade as part of a US FTA should be seen as an important aspect of the UK's trade diversification as it leaves the EU.

Other opportunities

A UK-US FTA could also present opportunities for cooperation on intellectual property issues, such as combating cyber theft of trade secrets and enhancing protections for research-intensive industries.

Public procurement is another potential opportunity, but it will be a difficult area to liberalise. President Trump has advocated for a "Buy American" and "Hire American" policy, while the UK has also suggested it will increasingly use strategic government procurement to drive UK innovation and growth.

28. *McKinsey Digital*, 'Digital globalization: The new era of global flows', February 2016: https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/digital-globalization-the-new-era-of-global-flows
29. *Office of the United States Trade Representative*, 'United States-Mexico-Canada Trade fact sheet: Modernizing NAFTA into a 21st Century Trade Agreement', https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/fact-sheets/modernizing
30. *TheCityUK*, 'The Future UK-US Trading Relationship: Creating a transatlantic digital market in services', September 2019: https://www.thecityuk.com/assets/2019/Report-PDFs/bb65451439/The-future-UK-US-trading-relationship-Creating-a-transatlantic-digital-market-in-services.pdf
31. *Politico Europe*, 'Europe's data grab', 19 February 2020: https://www.politico.eu/article/europe-data-grab-protection-privacy/
32. *TheCityUK*, 'The Future UK-US Trading Relationship: Creating a transatlantic digital market in services', September 2019
33. *Forbes*, 'Top 100 Digital Companies', accessed at https://www.forbes.com/top-digital-companies/list/#tab:rank
34. *European Parliamentary Research Service*, 'Trends to 2035: Geo-politics and international power', September 2017: https://www.europarl.europa.eu/RegData/etudes/STUD/2017/603263/EPRS_STU(2017)603263_EN.pdf

Obstacles to a UK-US deal: policy and political differences

Trade negotiations are inherently political and there are potential stumbling blocks in areas where the UK and the US have competing interests. The UK will need to be realistic about this, and should be under no illusion that the 'Special Relationship' with the US will necessarily lead to special treatment in trade negotiations.

Agriculture

One of the most contentious issues in a UK-US FTA is agriculture (as it is in nearly all trade negotiations). In the TTIP negotiations, the EU and the US exchanged tariff offers to reduce and eliminate tariffs on most industrial goods, but opted to leave agricultural tariff issues, which were highly sensitive, until "end-game" negotiations. The UK's new tariff schedule retains most of the EU's MFN tariffs on agricultural products; these will continue to apply to US products unless an agreement on liberalisation is reached.

The US, a major agricultural exporter, will want to secure access to the UK market for its products by eliminating both tariffs and non-tariff barriers as a top priority. This would include the lifting of the EU's de facto bans on certain US products, such as chlorine-washed chicken and hormone-treated beef. The UK's mandate is more cautious, stating that liberalisation of tariffs should "[take] into account UK product sensitivities, in particular for UK agriculture," and also states that any agreement should uphold the UK's "high levels" of food safety and animal welfare.[35]

In addition, agriculture should not be seen solely as an offensive interest for the US. On the UK side, the National Sheep Association has welcomed the start of negotiations and highlighted the export opportunities for UK lamb, while also calling for UK standards to be protected.[36] According to the International Trade Secretary, a 3% market share in the US could boost annual UK lamb exports by £18 million.[37] Equally, on the US side, a recent letter from the American Sheep Industry Association to the US Senate Finance Committee warns that "unrestricted trade in lamb and sheep meat from the UK would greatly jeopardize the domestic production of lamb" in the US.[38]

Nevertheless, there remains significant UK domestic political opposition to liberalisation of agriculture in a trade deal, including from farming interests and some Conservative MPs. In May, around 20 Conservative MPs rebelled to support an amendment to the Agriculture

35. *Department for International Trade*, 'UK-US Free Trade Agreement', p. 9.
36. *National Sheep Association*, 'US negotiations offer new routes for UK sheepmeat – provided standards are protected, says NSA', 5 May 2020: https://www.nationalsheep.org.uk/news/29356/us-negotiations-offer-new-routes-for-uk-sheepmeat-provided-standards-are-protected-says-nsa/
37. Liz Truss, 'US Trade deal will benefit UK farmers', *Farmers Weekly*, 14 May 2020: https://www.fwi.co.uk/news/farm-policy/liz-truss-us-trade-deal-will-benefit-uk-farmers
38. *Northern Ag Network*, 'Sheep industry urges caution on US-UK trade', 27 May 2020: https://www.northernag.net/sheep-industry-urges-caution-on-u-s-u-k-trade/

Bill by Neil Parish MP, which sought to prevent agricultural goods from being imported into the UK unless they are produced to animal welfare, food safety and environmental standards equivalent to those in UK law. This would have risked undermining the UK's ambitions to strike trade deals – not just with the US, but with other partners with an offensive interest in exporting agricultural products, such as Australia, New Zealand and the EU. Questions were also raised[39] over whether the amendment was consistent with the UK's obligations under the WTO agreement on Sanitary and Phytosanitary measures (SPS), which states that animal and plant safety measures "shall not be applied in a manner which would constitute a disguised restriction on international trade."[40] Although the amendment was defeated, it was a warning shot for the Government that highlighted the political sensitivity of agriculture in trade deals. The Government has recently committed to establishing a new Trade and Agriculture Commission to make recommendations for agricultural trade policy.[41] However, there is a risk that such a forum is captured by narrow producer interests at the expense of wider consumer welfare.

Ultimately, the row over the Bill and reports[42] of disagreement within Government over agricultural tariff liberalisation in US trade negotiations point to a wider truth: that the UK's external trade policy and domestic policy need to work in tandem with one another. Brexit presents a once-in-a-generation opportunity to reform the UK's domestic agricultural policy as it leaves the EU's Common Agricultural Policy (CAP), which Policy Exchange has previously recommended in the report Farming Tomorrow.[43] The UK's approach to subsidies[44] and regulation should help ensure that domestic farming is capable of competing in global markets, and identify options for diversification for those businesses which struggle to compete. Under the Agriculture Bill and the emerging Environmental Land Management scheme, direct subsidies will be phased out and redirected towards delivery of public goods such as improving water, soil and air quality and carbon sequestration. Freed-up land that fails to compete commercially in current usage can then be switched to more commercially productive and/or environmentally valuable purposes. The goal should be an agricultural system which is both more environmentally oriented and far more productive and competitive. As highlighted in Policy Exchange's recent essay collection, *Planning Anew*, delivering this principle of "public money for public goods" will require robust mechanisms and good data to measure outcomes.[45]

However, there are ways to promote trade while recognising the sensitivity of domestic agriculture. First, any liberalisation could be phased in gradually, giving UK producers time to adjust to new trading conditions. This would also reflect the gradual introduction of Environmental Land Management systems over several years, allowing for market exits or adjustments by farmers who find their current business models uncompetitive. Secondly, it would be possible to negotiate additional safeguards for agriculture as part of a trade agreement, for example allowing the UK to reintroduce tariffs on sensitive products if a

39. Owen Paterson, 'Protectionist amendments to the Agriculture Bill could squander a once-in-a-generation opportunity', *Global Vision*, 13 May 2020: https://globalvisionuk.com/protectionist-amendments-to-the-agriculture-bill-could-squander-a-once-in-a-generation-opportunity/ ;
40. *World Trade Organisation*, 'The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement)', Article 2(3): https://www.wto.org/english/tratop_e/sps_e/spsagr_e.htm
41. See Secretary of State Liz Truss' letter to NFU President Minette Batters, 29 June 2020: https://twitter.com/trussliz/status/1277552233224290304?s=20
42. *Financial Times*, 'UK plan to cut US farming tariffs sparks ministerial spat', 14 May 2020:

https://www.ft.com/content/e583b8a2-4074-4fa9-9c43-08a9979e0bee

43. *Policy Exchange*, 'Farming Tomorrow', August 2017: https://policyexchange.org.uk/publication/farming-tomorrow/
44. Note that the UK's agricultural subsidies are not likely to be a central issue in the US negotiations themselves. While the US has previously expressed concern about the potential trade distorting impact of EU subsidies under the Common Agricultural Policy, there is nothing in the US mandate for the UK on agricultural subsidies. USMCA's provisions on agricultural subsidies are relatively minimal, and primarily seek to uphold the existing prohibition on agricultural export subsidies under the WTO agreement on agriculture. See *United States Trade Representative*, '2020 National Trade Estimate Report on Foreign Trade Barriers,' p. 176; *USMCA*, Article 3.4: https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/03_Agriculture.pdf
45. William Nicolle and Benedict McAleenan, 'Environmental Impact Assessment fit for the 21st Century', *Policy Exchange*, 'Planning Anew', p. 49, 10 June 2020: https://policyexchange.org.uk/wp-content/uploads/Planning-Anew.pdf

certain price or volume threshold for imports is crossed. There are several examples of such provisions in bilateral and regional FTAs around the world.[46] Finally, there are options for negotiating piecemeal liberalisation in sensitive sectors, such as the use of tariff rate quotas and the recently floated option of "dual" or "conditional" tariffs as a way of distinguishing between different production standards.

Of particular sensitivity in UK-US trade talks is the issue of US agri-food products which currently face a de facto ban under EU-inherited law in the UK, such as chlorine-washed chicken and hormone-treated beef. US negotiators will see the lifting of these bans as a priority, but the issue is controversial in the UK and lifting the bans would require legislation in Parliament.[47]

There are various arguments used against the import of such products, which need to be distinguished. The first is the argument that the import of cheap meat, produced in ways that are illegal in the UK, would be a competitive threat to producers. The Government is reportedly considering to address this through a "dual" or "conditional" tariff system, meaning that a product imported under an FTA with the US would qualify for a lower tariff only if it is produced to certain standards.[48] This would amount to lifting the current ban on imports of chlorine-washed chicken, but with the proviso that chlorine-washed chicken is subject to higher tariffs than chicken which is not. In theory – and subject to negotiation – this would neutralise the cost-competitiveness advantage to US exporters of using different standards, thus offering a degree of protection to UK producers while stopping short of retaining a ban on certain US products.

The competitive threat to producers needs to be distinguished from separate consumer concerns about the production of US agri-food products, covering both food safety and animal welfare. In the case of chlorine-washed chicken, the food safety argument is weak. The European Food Safety Authority has said that chlorine-washed chicken is safe to eat, and in any case the UK has the right to prohibit the imports of unsafe food under the WTO Agreement on Sanitary and Phytosanitary (SPS) measures.[49] The animal welfare issue, essentially that processes such as chlorine-washing are used to compensate for poor welfare standards at other points of the production process, is more complicated. Whether animal welfare and objections to production standards can be used as a legal justification for prohibiting certain products is a contested question at the WTO. An EU ban on the import of certain seal products was upheld on moral grounds.[50] The EU's ban on chlorine-washed chicken, meanwhile, has not yet been tested at the WTO, but has been a long-running dispute between the EU and US which the two parties failed to address in TTIP negotiations. Nevertheless, the WTO's Dispute Settlement Body is generally reluctant to uphold import bans which are not justified by the scientific evidence (for example, it has previously ruled that the EU's ban on the import of hormone-treated beef was illegal).[51]

Labelling, either via domestic legislation or voluntary certifications, can be used to inform consumers of food production methods for particular

46. Willemien Viljoen, 'Comparing Safeguard Measures in Recent Regional and Bilateral Trade Agreements', *International Centre for Trade and Sustainable Development*, November 2016: https://www.ictsd.org/sites/default/files/research/comparing_safeguard_measures_in_recent_regional_and_bilateral_trade_agreements.pdf
47. Letter from Trade Secretary Liz Truss and Environment Secretary George Eustice, 5 June 2020: https://twitter.com/trussliz/status/1269285246001872900/photo/1
48. *Daily Telegraph*, 'Britain ready to allow import of chlorinated chicken from US', 3 June 2020: https://www.telegraph.co.uk/politics/2020/06/03/britain-ready-allow-import-chlorinated-chicken-us/
49. *European Food Safety Authority*, 'Opinion of the Scientific Panel on food additives, flavourings, processing aids and materials in contact with food (AFC) on a request from the Commission related to Treatment of poultry carcasses with chlorine dioxide, acidified sodium chlorite, trisodium phosphate and peroxyacids', 6 December 2005: https://efsa.onlinelibrary.wiley.com/doi/epdf/10.2903/j.efsa.2006.297
50. *World Trade Organisation*, 'Dispute Settlement 400: European Communities — Measures Prohibiting the Importation and Marketing of Seal Products', 18 June 2014: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds400_e.htm. See also *House of Lords EU Committee*, 'Brexit: Agriculture', 3 May 2017: https://publications.parliament.uk/pa/ld201617/ldselect/ldeucom/169/16906.htm#_idTextAnchor052
51. The EU nevertheless retains the ban, but has agreed a higher tariff-rate quota for non-hormone treated beef with the US as compensation. *World Trade Organisation*, 'Dispute Settlement 26: European Communities — Measures Concerning Meat and Meat Products (Hormones)', 12 April 2016: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds26_e.htm

products. It is also worth recalling that UK retailers themselves already play a key role in driving higher standards, with poultry meat often produced to standards which go beyond legislative requirements.[52]

Ultimately, the UK should adopt a cooperative approach to addressing animal welfare concerns with relevant trading partners through consultation and efforts to create multinational agreements. Unilateral blanket bans on the import of agri-food products, not supported by scientific evidence, will be viewed as a protectionist move by several international partners, including but not limited to the US and will make the conclusion of trade agreements more difficult. Indeed, it would be hypocritical for the UK to reject aligning with EU standards as the price of free trade while simultaneously demanding trade partners align with the UK's.[53]

The NHS

The prospect of a trade deal with the US has long been dogged by warnings about the impact on the NHS. Much of the rhetoric is misleading – particularly the claim made during the 2019 General Election campaign that the NHS would be "sold off". An FTA would not change the way the NHS is funded or the way it provides services; indeed, private contractors already operate in the NHS, yet services continue to be free at the point of use.

Nevertheless, there is a potential disagreement in US trade negotiations over drug pricing within the UK healthcare system. The US has a longstanding view that the NHS's ability to use centralised procurement to secure drug price reductions damages US pharmaceutical producers by keeping prices artificially low, and resolving this issue is in the US' negotiating objectives for a UK deal.[54] By contrast, the UK's mandate states that "the price the NHS pays for drugs will not be on the table."[55] Maintaining the UK's red line on drug pricing will not necessarily prevent a deal; in previous trade negotiations, notably with Australia, the US has softened its demands on drug pricing to get a deal over the line.

China

There is also the question of whether the US will seek to use an FTA as a tool to pull the UK closer on China policy. Although it will not be part of official trade negotiations, the much-publicised split over Huawei's access to UK 5G networks has highlighted the potential for transatlantic tensions on China. It triggered a Conservative backbench rebellion that was twice the size of the recent rebellion on agriculture (albeit this time in support of the "pro-US" position, rather than against it). Since the Covid-19 crisis began, Conservative support for a tougher stance on China has grown.[56] More recently, the Government announced that it will ban new Huawei equipment from the 5G network from the end of this year and remove existing equipment from the network by 2027, partly in response to US sanctions on Huawei.[57]

The US has previously used FTAs as a tool of its China policy. Article 32.10 of USMCA allows any two of the parties to terminate the FTA, with

52. P. L. M. van Horne, 'Competitiveness of the EU poultry meat sector, base year 2017: International comparison of production costs,' *Wageningen Economic Research*, December 2018, p. 11: https://www.avec-poultry.eu/wp-content/uploads/2018/12/WUR-report-2018-116-Competitiveness-EU-poultry-meat-PvanHorne_def.pdf

53. Liam Fox, 'The amendments that could kill free trade deals with America, developing countries and the Commonwealth this week', *Conservative Home*, 11 May 2020: https://www.conservativehome.com/platform/2020/05/liam-fox-the-amendments-that-could-kill-free-trade-deals-with-america-developing-countries-and-the-commonewealth-this-week.html

54. *Office of the United States Trade Representative*, 'United States-United Kingdom Negotiations: Summary of Specific Negotiating Objectives', February 2019: https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

55. *Department for International Trade*, 'UK-US Free Trade Agreement', p. 5

56. Dean Godson, 'How the Conservatives divide on policy towards China', *Policy Exchange*, 1 May 2020: https://policyexchange.org.uk/dean-godson-how-the-conservatives-divide-on-policy-towards-china/

57. The Financial Times, 'Huawei to be banned from UK's 5G network by end of year', 14 July 2020; https://www.ft.com/content/997da795-e088-467e-aa54-74f76c321a75

six months' notice, if the third negotiates an FTA with a "non-market economy." This is widely seen as an attempt by the US to deter Canada or Mexico from signing an FTA with China, and a similar clause is proposed in the US mandate for the UK.[58] Speaking in Parliament recently, Shadow International Trade Secretary Emily Thornberry argued that to sign up to such a clause would be "an unacceptable breach of the sovereignty of this Parliament."[59]

However, a clause modelled on Article 32.10 would not present a new technical constraint on the UK's trade policy towards China. Such a clause would not rule out a UK FTA with China (if seeking one was UK policy, which it is not). It would simply mean that there would be consequences for doing so in terms of the UK's relationship with the US (which, as the Huawei dispute illustrates, is likely to be true in any case). Equally, if USMCA is used as a template, the US may reserve the right to terminate the FTA for any reason (permitted in USMCA under Article 34.4).[60]

Digital services tax

Another potential issue is the UK's recent introduction of a digital services tax on large technology companies.[61] US officials and stakeholders have repeatedly expressed opposition to this proposal in the past and previously hinted that it might be an obstacle to a trade agreement.[62] The US has also recently launched a so-called "Section 301" investigation into digital taxes imposed by the UK and several other countries, a process which could end in retaliatory tariffs, highlighting that the tax remains a source of disagreement.[63] As with Huawei, it is possible that the UK could use the digital services tax as a card to be traded away in order to extract concessions from the US elsewhere – though UK negotiators would need high-level political approval in order to do so.

Procedural issues

There are also procedural challenges to completing a deal. First, there is the question of the US Presidential Election in November. Completing a comprehensive trade deal in the five months before the election would be a tall order; and even if it was negotiated, it is questionable whether a Democrat-majority House of Representatives would pass implementing legislation for a deal which would give President Trump a pre-election 'win'. Indeed, US Trade Ambassador Robert Lighthizer recently told Congress that it was "unlikely" the US would reach an agreement with the UK (or any other partner) before November, and that bringing an agreement before Congress in that timescale would be "nearly impossible."[64]

However, unlike the EU negotiations, there is no hard deadline for striking a deal with the US and the UK can afford to take some time to ensure the deal is right, whoever the occupant of the White House. Indeed, UK International Trade Secretary Liz Truss told MPs recently that in negotiations with the US and other non-EU trade partners, "We're not going to rush into a deal and there is no deadline."[65]

A Biden Presidency would not necessarily have radically different

58. *USMCA*, Article 32.10; see also *Office of the United States Trade Representative*, 'United States-United Kingdom Negotiations: Summary of Specific Negotiating Objectives', p. 15.
59. *Hansard*, House of Commons, US Free Trade Agreement, 12 May 2020, Column 111: https://hansard.parliament.uk/Commons/2020-05-12/debates/85E46155-DE56-44D9-A981-38741547C9F1/USFreeTradeAgreement
60. *USMCA*, Article 34.4.
61. *HM Government*, 'Policy paper: Digital Services Tax', 11 March 2020: https://www.gov.uk/government/publications/introduction-of-the-digital-services-tax/digital-services-tax
62. *Financial Times*, 'UK to push on with digital tax in face of US anger', 21 January 2020: https://www.ft.com/content/c80079ca-3c61-11ea-a01a-bae547046735 ; see also *United States Trade Representative*, '2020 National Trade Estimate Report on Foreign Trade Barriers,' p. 213.
63. *Daily Telegraph*, 'US opens investigation into Britain's digital tax on tech giants', 2 June 2020: https://www.telegraph.co.uk/technology/2020/06/02/us-opens-investigation-britains-digital-tax-tech-giants/
64. *BBC News*, 'US says a UK trade deal 'unlikely' before November,' 17 June 2020.
65. *Reuters*, 'UK says no deadline for U.S. trade deal, talks tough on terms', 24 June 2020.

priorities for trade negotiations with the UK. US trade objectives largely reflect stakeholder concerns and retain a degree of bi-partisan consensus. For example, the US had major offensive demands for agricultural liberalisation in TTIP negotiations with the EU, which took place under the Obama administration and were ultimately a major stumbling block to an agreement.[66] Hawkishness on China is also becoming a bi-partisan position in the US, and has been a feature of Biden's Presidential campaign.[67]

There are, however, potential differences between a Democrat and Republican administration, notably on Brexit and Northern Ireland. Previously, senior Democrats have warned that they would not support a UK-US deal if Brexit was seen to risk the Good Friday Agreement.[68] This issue is now less prominent due to the ratification of the UK-EU Withdrawal Agreement. If a UK-EU agreement on implementation has been reached prior to a Biden Administration taking office, the issue would have less salience since the Republic of Ireland would have acquiesced to the agreement. On the other hand, should the Protocol still be the subject to dispute, the UK Embassy in Washington should work actively to impress on US stakeholders that the UK position on the Protocol rests on respecting the consent principle under the Belfast/Good Friday Agreement. More broadly, while there is no reason to suspect a Biden Presidency would oppose the principle of an FTA with the UK, there is a question over whether he would prioritise it to the same degree as President Trump. It is worth recalling that President Obama said prior to the 2016 EU referendum that Brexit would leave Britain at the "back of the queue" for a US trade agreement, though these remarks were made before Brexit became a reality.[69]

Perhaps of greater significance than the Presidential election is the fact that the President's authority to negotiate and fast-track FTAs through Congress under the Trade Promotion Authority runs out in July 2021. If this is not renewed before a deal is completed, there is a risk that negotiations lose momentum.

It is also worth remembering that, for now, negotiations are taking place purely on a remote basis – something which is largely without precedent in the history of trade negotiations. Progress in virtual negotiations is by no means impossible, but it may be more difficult for negotiators to build up trust and co-ordinate with government departments and stakeholders – especially when bandwidth on both sides of the Atlantic is stretched by the challenges of tackling the pandemic.

With these issues in mind, some have speculated that there could be an initial 'mini-deal' this year, which would fall short of a full FTA and would not require approval by Congress, perhaps similar to the "phase one" deals the US has agreed with Japan and China.[70] For example, this could involve President Trump exempting the UK from retaliatory tariffs placed on the EU in exchange for a concession of some sort on the UK's part (perhaps on Huawei or the digital services tax) – allowing both sides to secure a 'quick win' while postponing more difficult issues until later. For now, however, the Government is focusing on a comprehensive FTA.

66. *Congressional Research Service*, 'Agriculture and the Transatlantic Trade and Investment Partnership (T-TIP) Negotiations', 14 July 2016: https://www.everycrsreport.com/reports/R44564.html#Content
67. *Policy Exchange*, 'China policy after Corona: is a shift needed?', 14 April 2020: https://policyexchange.org.uk/pxevents/china-after-corona/ ; see also *Politico*, 'Biden ad exposes a rift over China on the left', 23 April 2020: https://www.politico.com/news/2020/04/23/biden-ad-exposes-left-rift-china-202241
68. *The Guardian*, 'No chance of US-UK deal if Northern Ireland peace at risk – Pelosi', 14 August 2019: https://www.theguardian.com/politics/2019/aug/14/no-chance-of-us-uk-deal-if-northern-ireland-peace-at-risk-pelosi
69. *BBC*, 'Barack Obama says Brexit would leave UK at the 'back of the queue' on trade', 22 April 2016: https://www.bbc.co.uk/news/uk-36115138
70. Ed Balls, Nyasha Weinberg, Jessica Redmond and Simon Borumand, 'Will Prioritising A UK-US Free Trade Agreement Make Or Break Global Britain? Transatlantic Trade and Economic Cooperation through the Pandemic', *Harvard Kennedy School*, May 2020

The downside of a piecemeal approach is that the "difficult" issues are inevitably left out and the incentive to return to them later diminished. Moreover, unlike a full FTA, it is not clear that a high-level 'mini-deal' would have the bi-partisan support necessary to survive a possible change of administration in the US.

Conclusion

Despite the many challenges, the case for a deal with the US is strong. With the global trading landscape uncertain in the light of the Covid-19 pandemic and with protectionism on the rise, it is more important than ever that the UK makes the case for free trade in its actions as well as in its words. Moreover, in a world dominated by bigger and more unpredictable players, there is real value for the UK in locking in commitments to trade liberalisation through binding international agreements with key partners. If combined with other FTAs, wider trade promotion and multilateral initiatives, a successful US deal would be an opportunity to send a message to the rest of the world that Global Britain is open for business.

Nevertheless, it must be remembered that a US deal does not preclude the UK from undertaking unilateral steps towards trade liberalisation in the future. Domestic reforms are likely to do more for the welfare of consumers and the global competitiveness of the UK economy than any individual bilateral agreement.

Policy Exchange

£10.00
ISBN: 978-1-913459-32-1

Policy Exchange
8 – 10 Great George Street
Westminster
London SW1P 3AE

www.policyexchange.org.uk