WILL PRIORITISING A UK-US FREE TRADE AGREEMENT MAKE OR BREAK GLOBAL BRITAIN?

Transatlantic Trade and Economic Cooperation through the Pandemic

May 2020

HARVARD Kennedy School
MOSSAVAR-RAHMANI CENTER
for Business and Government

KING'S College LONDON

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Abstract

Talks on a future Free Trade Agreement ("FTA") between the United Kingdom and United States began on May 5 2020. This paper, the fifth in a series looking at the impacts of Brexit on the UK economy and trade, examines whether talks might result in an FTA between the US and UK, and what the impact of such a deal could be. Based on interviews with senior government officials, trade and sector experts on both sides of the Atlantic – before and during the Covid-19 Pandemic - we explore the prospects of a deal and what shape that might take. We conclude that a full FTA with the US before the summer of 2020 is impossible given the impacts of Covid-19 and roadblocks and risks involved. A 'mini-deal', however, is a possibility. Yet such a 'mini-deal' poses an important strategic dilemma for the government: will it draw the UK into an emerging US foreign and economic policy based on anti-China bilateralism, closing the door on 'Global Britain'; or can the UK use this opportunity to help encourage the US back into the global community?

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Executive Summary

Introduction

The United Kingdom ("UK") has now left the European Union ("EU"). A quick deal with the US is considered one of the prizes from departure. It offers an obvious launchpad for the 'Global Britain' agenda and a way to show economic momentum as lockdown restrictions lift. Forging new trade deals by leveraging historical international links is viewed as an important step towards establishing the "enterprising, outward-looking and truly global Britain" articulated by Prime Minister Boris Johnson. With significant government enthusiasm for a UK – United States ("US") Free Trade Agreement ("FTA") and promises to strike a deal as "quickly" as possible coming from both sides of the Atlantic, we have decided to review the prospects for and consequences of such a deal.

The UK-US 'special relationship' is characterised by close political, cultural, security and economic ties. After the EU, the US is the UK's largest trading partner. The possibility of a trade deal with the US has captured both political and public imagination. Our previous 2018 paper *On the Rebound: Prospects for a UK-US Free Trade Agreement* - written two years ago - examined the likelihood of a US-UK FTA and the potential benefits for both countries. We found slim prospects for a meaningful deal offering significant benefits for the UK. Instead, we identified a significant imbalance in political will for a deal, narrow scope for agreement on important issues and the fact that a deal would force the UK to confront a complex choice between alignment with the EU and US trading spheres.

To move beyond the political rhetoric and promises, we have again conducted interviews with senior officials, trade associations, academics and trade experts in the UK, US and the EU to assess the prospects for a US-UK FTA, two years after our initial analysis.[1] Our research identifies some key upsides, risks, and strategic priorities as 'Global Britain' begins to assert itself.

The context in which we write this paper is radically transformed. The containment measures to combat Covid-19 have brought the global economy to a standstill. America-China relations have deteriorated significantly and governments are consumed by the search for ways to manage the outbreak and the worst global recession in a century. For the first time since the great depression, both advanced and emerging economies are all in recession. The IMF has projected a cumulative loss to global GDP of $9 trillion and world trade has been totally disrupted.

On 5th May, nearly 6 weeks after the UK government imposed a 'lockdown' on the UK, the UK government launched the first round of trade talks with the US. This was accompanied by a joint statement that a deal would "contribute to the long-term health of our economies, which is vitally important as we recover from the challenges posed by Covid-19".

The Government has projected that the long-run boost to GDP from a UK-US deal is just 0.16%, or £3.4bn in today's money, over the next 15 years. These pre-Pandemic estimates were set out in the UK's negotiation mandate released in February 2020. However, these gains are dwarfed by the negative impact on GDP of the UK concluding an 'average' UK-EU FTA leading to a fall in GDP of -4.9% over 15 years, and the projected 12.8% GDP contraction in 2020 as a result of Covid-19.

Despite President Donald Trump's promise that the UK and US will strike a "massive" trade deal, it is impossible that a substantive deal will be reached before the US elections, not least as detailed deals typically take years to negotiate.

[1] As with our 2018 paper, due to the sensitive nature of their roles in the negotiations we cannot attribute quotes to these senior officials individually. See Methodology for more details.

Negotiations are also going to be tough; there are many outstanding issues, such as the impact on the National Health Service, which played an important role in the UK's 2019 general election. The Covid-19 crisis adds fuel to these debates. The US' growing hostility towards global governance adds increasing tensions as the pandemic reinforces the UK's strong interest to strengthen multilateral economic, trade and health cooperation which the British Government has demonstrated in recent weeks.

Nevertheless, the political impetus for a deal before the US election means that a political declaration or 'mini-deal' is possible. However, the UK government faces an important strategic dilemma: will this 'mini-deal' draw the UK into an emerging US foreign and economic policy based on anti-China bilateralism, closing the door on 'Global Britain'; or can the UK use this opportunity to help encourage the US back into the global community?

Summary of Findings

Finding 1: With the UK now out of the EU, a quick deal with the US offers an obvious launchpad for the 'Global Britain' agenda – and a way to show economic momentum as lockdown restrictions lift

The UK left the EU on the 31st January. With departure comes the restoration of the UK's ability to independently negotiate and agree trade deals with other countries. Back in 2018, our previous paper stressed how important an early deal with the US would be for the UK Government.

Our research for this paper demonstrates that leaving the EU has amplified the importance of a US deal for Prime Minister Boris Johnson. Hailed as one of the biggest upsides to Brexit, a UK-US FTA is presented by the Government as a panacea to the economic shock caused by the increased cost and reduced volumes of trade with the EU. A new trade deal offers a way for both governments to chart a return to business as usual following lockdown. Furthermore, the UK has sought out global cooperation to chart a way out of the pandemic and bringing the US to the centre of that effort would be powerful for the post-Covid recovery.

A Senior UK Government Official

"Grabbing hold of this deal is a way of creating new opportunities for the huge number of people who have lost their jobs through Covid-19."

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"For the UK this negotiation is very important, it will show that the UK, unlike the EU, can reach a deal with the US."

Senior Official, State Department

"With the UK now having left the single market, the most comprehensive FTA that exists, it is understandably highly motivated to strike as many FTAs as possible."

A Senior UK Finance Official

"Having been on pause because of Covid-19, negotiations have now started - but the idea of making substantive progress is really quite difficult. It depends on the politics: both sides might want a quick and easy win. We don't know what dynamic will emerge."

Professor Anand Menon, King's College London

"*Coronavirus creates a new political contract which first changes the calculation around trade deals; and second changes the calculus around a deal with largely symbolic gains - the political imperative for governments to this deal as they want to show they're up and running again. This will create an increased incentive to sign something*."

Finding 2: Despite Trump's rhetoric, it is not clear whether the US is actually committed to a mutually beneficial deal

Our 2018 paper highlighted the economic power imbalance between the US and UK owing to differences in size of the economies and institutional experience and capacity in conducting trade negotiations. Our new interviews affirmed the significance of this power imbalance. The developments in US trade policy over recent years makes the power differential more important.

Over the last decade, and particularly during this Trump presidency, the US has moved away from support for the World Trade Organisation ("WTO") and multilateral initiatives. This hostility towards the rules-based international order is exemplified by the US administration's recent turn against the World Health Organisation ("WHO"). One facet of this is the mercantilist turn in US trade policy, with trade becoming a lever for domestic policy and a means to respond to threats to American hegemony posed by China's rise. Within this framing, the current setup of multilateral organisations such as the WTO is considered disadvantageous to the US.

The US has developed a 'boilerplate' approach to FTAs which it is putting in place with smaller partners, extracting significant concessions that help to deliver US policy priorities. A strictly bilateral deal will create problems for the UK, as many of the provisions contained within the US-Mexico-Canada deal ("USMCA") and the US-Australia deal ("AUSFTA") will severely restrict UK sovereignty, only just 'restored' through Brexit. The US has broader strategic interests in moving the UK away from EU standards, particularly on sanitary and phytosanitary ("SPS") measures for food safety.

Trump has repeatedly conveyed his support for a deal. However, even before Covid-19 drained capacity for advancing negotiations, the 2020 election threatened progress. A change in administration in late 2020 could introduce further barriers to a deal, especially with the need to renew the executive Trade Promotion Authority ("TPA") at the beginning of 2021.

The combination of this uncertain US commitment and outstanding contentious issues reconfirm our finding that a full-scale FTA is unlikely any time soon and certainly before the US Presidential election. However, there remains a possibility for a high level 'mini-deal', albeit limited in scope and most likely political in nature. A 'Phase-1' deal or political agreement offers an alternative to a full FTA. Yet it risks that any agreement draws Britain closer into a potentially risky hardline anti-China stance which runs against the open cooperation needed for Covid-19 recovery.

A Senior USTR Adviser

"A UK-US deal would be great economically for the US and would help the future US negotiations with the EU as well. Anxieties on the UK side that it doesn't have any leverage and so can be steamrollered are overblown - this is a big deal for the US."

Professor John Van Reenen, Massachusetts Institute of Technology

"Look at the raw bargaining power; the UK is a very small country, whereas the EU and US are similar sizes. It's like asking for a date when the other person is five times better looking than you. "

A Senior UK Government Official

"The talks could conclude with a political statement that pulls the UK towards an anti-China, anti-cooperative view of the world."

A UK Senior Finance Official

"There is a prospect for doing something pre-November, but whether negotiations get stuck really depends on what the White House thinks of this, and what the White House wants to do."

Professor Larry Summers, former US Treasury Secretary

"It is delusional to think that a US-UK trade deal will happen anytime soon. It is simply not possible."

Finding 3: Detailed trade negotiations between the US and UK are going to be tough, with the US conceding little and making demands that the UK will find hard to meet

The demands raised in the US negotiating objectives are likely to present roadblocks to a substantive trade deal. Our 2018 paper found that the UK will have little to gain and will have to concede more on tariff reductions than the EU offered in the Transatlantic Trade and Investment Partnership ("TTIP"); and that the US cannot, or will not, concede on many British non-tariff and regulatory objectives.

The 'difficult' issues identified in our first paper remain highly controversial. These include NHS pricing of pharmaceuticals; tariffs and differing regulatory standards on agricultural produce; and changes to the ability of UK and US companies to tender for public procurement. Any deal which could be seen to constrain sovereignty will be difficult to square against the hard-fought efforts to unwind from the EU.

Alongside the tensions we identified in 2018 are new issues emerging around the contents of USTR's specific negotiating objectives for a US-UK FTA including US demands on digital taxes, Huawei involvement in 5G networks, and Geographic Indicators (where a product is associated with a particular quality, reputation or other characteristics, such as Melton Mowbray pork pies). Trump's "anti-China" foreign policy framing of US trade policy will make things particularly difficult for the UK, which in recent weeks has been publicly advocating for global cooperation to deal with the pandemic, including supporting the WHO, coordinating the search for a vaccine, providing country-by-country emergency support through the IMF, easing lockdown, and kickstarting the economic recovery.

EU Commission TTIP Negotiator

"The US hasn't accepted the opening of trade in services in areas of UK interest. This leaves limited scope for gains."

A Senior USTR Adviser

"It's impossible to overstate how much Congress cares about agriculture – US agriculture is very productive, and we now want to work out how to sell it."

Jeff Schott, Peterson Institute for International Economics

"US negotiators don't talk about 'special relationships' when they're cutting a deal and asking the other side to concede."

Meredith Crowley, Cambridge University

"There will be much greater scrutiny by British and American voters of any agreements over trade in health products now and the procedures by which the NHS determines how much it will pay for new medicines"

A Senior UK Government Official:

"The US is going to put huge pressure on the China-Huawei problem. But in some ways coronavirus has made that easier as it has driven the UK further away from China already and made it slightly easier for the UK government to agree a slightly tougher stance on China."

A Senior UK Finance Official:

"The US government seems to want to use the pandemic to cut off China from the global economy, to onshore manufacturing and redesign the global economy, to reprioritise around security while saying you can't have China as part of the system because of how they behave. Is this electioneering rhetoric? Or is it potentially much more dangerous, a desire to have a different global economy where China isn't part of the system?"

Finding 4: The clear view of UK business remains that a substantive UK-EU deal is the priority; a UK-US FTA risks preempting the relationship with the UK's current main trading partner

During our last round of interviews in 2018 the consensus view was that the UK would need to strike a deal with the EU before it could conclude an FTA with the US. In many cases, liberalised access to EU or US markets will require UK businesses to align with the regulatory frameworks of one regime, which in some places clearly conflict. Two years on, the UK Government is now openly challenging that view and is negotiating deals with the UK and US in parallel.

The UK and EU remain a long way from agreement on numerous key issues around the future relationship. In particular, the UK's negotiating mandate for the EU deal strongly resists UK adherence to EU standards, seeking total autonomy around rulemaking and a wider definition of what constitutes a regulatory level playing field. Covid-19 increases the probability that the UK will agree a very slim deal or fail to agree a deal entirely with the EU by the end of 2020. Despite this, the government is insistent that there will be no extension of the Transition Period.

As we have stressed in our three papers on the impact of Brexit on British business, the clear view of British business is that increased transaction costs with the EU runs counter to the interests of many sectors which rely heavily on close alignment with the EU. It may be that the UK is still prioritising the EU, but progressing talks with the US as a negotiation tactic to demonstrate stronger alternatives to a UK-EU deal. However, this path is fraught with risks. As we outlined in our 2018 paper, negotiating an early UK-US deal could force the UK to choose between regulatory alignment with the US or EU. Even if the UK only signed a high level 'mini-deal' with the US, there is a risk this conveys to the EU that the UK is moving towards a US regulatory model and worldview.

Lourdes Catrain, Hogan Lovells

"The EU-UK trade relationship should be the framework for UK trade policy. More than half of what the UK trades is with the EU."

William Bain, British Retail Consortium

"Our members report that 79% of the imported food currently sold in the UK comes from the EU."

A Senior Official UK Trade

"The UK government should put all of its energy into the EU deal; keep the US warm, and then pick up with the US next year following the inauguration."

A Senior Foreign Office Official

"If we do open up our markets to goods made to US standards, I suspect that this will push the EU to be very tough on us."

Professor Robert Lawrence, Harvard Kennedy School

"It's dangerous if the UK doesn't fully understand the implications of any UK-US deal for its dealings with the EU. The EU-UK deal is more important for the UK; you need to know what you'll need from Europe before entering a deal with the US."

A Senior USTR Adviser

"If you're just going to live under EU rules, you don't have a lot to trade with us. If you give the Europeans a level playing field –the UK will still be in the union from the US perspective. Americans are going to say - are you ready to do a deal with us where we have real access to your market?"

Finding 5: The Covid-19 pandemic reinforces the UK's strong national interest in using its 'Global Britain' agenda to strengthen multilateral economic and health cooperation.

The UK has a strong interest in putting multilateral cooperation at the heart of its future economic and foreign policy agenda. For historic reasons the UK holds an influential role in many multilateral organisations. It can better leverage its expertise in sectors of key interest such as finance, as well as position itself as a "broker" between US and EU interests, in cooperative rather than adversarial fora. Covid-19 has only heightened the importance of a return to international cooperation in order to ensure countries receive the support they need to fight the pandemic, co-ordinate the economic recovery and set the stage to address the upcoming climate change crisis. In recent weeks the UK has been privately advocating within the IMF for access to finance by emerging countries, increased funding to the WHO and hosted an international conference to coordinate the search for a vaccine.

Now is not the easiest time for the UK to make the case for enhanced multilateralism. Covid-19, like the 2008 crisis, has shown that in the face of emergency countries often turn to protect their own interests rather than support others. The UK's upcoming G7 presidency in early 2021 opens a window of opportunity to promote the national interest through enhanced global trust and cooperation. The challenge for the UK Government is to ensure that its 'Global Britain' strategy avoids becoming trapped between an anti-global US and a scorned EU which could bilaterally punish the UK for trying to "go it alone".

A Senior UK Trade Official

"The G7 and G20 multilateral routes are being used a lot at the moment. There is a lot of respect for the role we can play, plus we have the upcoming presidency. The EU has been slower on the international response because the internal EU issues are so all consuming - it will not begrudge the UK its role in international institutions."

A Senior UK Finance Government Official

"A lot of multilateral cooperation is needed. The international system really doesn't link health and economic resilience together, and the UK needs to help lead here.

There are also the technical standards which is the real meat for the G7: the role of vaccines and science, R&D and manufacturing standards."

A Senior UK Government Official

"Now is a moment where we need global coordination. But there are big questions about the role that the US will play given US-China. Pursuit of UK-US bilateral negotiations could be seen as a diversion from the G7 and contrary to the need to coordinate efforts around the economy, health, preventing the collapse of global supply chains. Or the UK could build on the Special Relationship Economic Working Group and the other open diplomatic and trade channels with the US to try to triangulate efforts."

A Senior UK Trade Official

"There is an opportunity for us to encourage a more internationalist approach from the US, propping up the multilateral system. How we play the reaction to China matters a lot."

A Senior UK Official

"If Trump wins again then he will have won on a very isolationist, nationalist platform and the prospects of the UK / G7 stasis will continue. If the US will not play ball, it is very hard to doing anything through the G7."

Finding 6: A UK-US 'mini-deal' is still possible this year - but is this a risk or an opportunity?

Covid-19 has removed any prospect of a UK and US striking an FTA this year. To circumvent potential roadblocks, avoid a clash with the EU agreement, and still deliver a political Trump-Johnson post-lockdown economic initiative before the US elections, it is possible that the UK and US could opt for a high-level political 'mini-deal' - a political declaration executed without Congressional approval, even amid the Covid-19 crisis.

A 'mini-deal' would not take the form of a traditional FTA and could include a range of general declarations, commitments or tariff cuts, as seen with the US-Japan and US-China 'phase 1' deals. This accords with the Trump administration's lower regard for WTO rules and norms, and trend in the US towards signing deals in anticipation of a more comprehensive FTA. If agreed to prior to the 2020 presidential election and in advance of an EU-UK agreement, this could score quick wins and build momentum for a more comprehensive deal with the US later on.

While Covid-19 increases the political imperative for a declaratory 'deal', there are risks: the trade benefits of such a 'mini-deal' are slim and the price paid for this deal could be the UK getting pulled towards the Trump administration's anti-China, anti-global governance view of the world.

On the other hand, if the 'mini-deal' broadens out beyond the US-UK bilateral trade relationship, it could provide an opportunity to move the US away from unilateralism and towards re-engagement with the multilateral system. The deal could focus on joint leadership of multilateral initiatives in the Covid-19 recovery period. Given the increasingly global nature of production, any speedy economic recovery will require, by its very nature, close cooperation and trust between countries. The economic recovery is also highly contingent on global public health, which requires international cooperation in order to support countries in the developing world, coordinate vaccine development and delivery, and mitigate the risk of new 'waves' following the initial coronavirus peaks. If the UK can play a role in convincing the US of the merits of internationalism, it would benefit both the UK and the rest of the world.

A Senior USTR Official

"There is no reason why, in the short term, the two countries couldn't agree a 'phase 1' type agreement. This would allow Prime Minister Johnson to go back to the country to say: we are making progress, this is working, we are going to conclude the deal after the election."

Senior UK Government Official

"It's inherently risky getting the UK to do a deal with the US that we don't get much for but give up quite a lot for and is accentuated if there is pressure to do something quickly."

Paul Tucker, Chair of the Systemic Risk Council

"Everybody, including most importantly the UK, is going to find out how well a medium-sized country can do in negotiations with bigger economic powers through the forces of issue-linkages and alliances during a period of geopolitical change."

A Senior USTR Official

"Feelings against China are running much stronger than they were, even a month ago. China-hawks are in the ascendancy and Americans are looking towards a more aggressive approach to China. That's going to create lots of issues for others who would just rather the Americans and the CCP to get along, but right now, it's not possible. The UK is going to have to decide where it stands."

Professor Robert Lawrence, Harvard Kennedy School

"The Biden administration is quite different and would be much more interested in collaboration and dealing with allies and the China issue, rather than bludgeoning them. The US under Biden might be more receptive to the kind of agreement that the UK might want. If I was the UK, I wouldn't rush into signing a deal before the election."

Conclusion

In summary, with the UK now out of the EU, a quick deal with the US offers an obvious launchpad for the 'Global Britain' agenda - and a way to show economic momentum as lockdown restrictions lift. A UK-US FTA has always been 'small beer' for the US and is fraught with roadblocks and risks for the UK. But Trump needs to kick the economy back into action and generate international support for his post-Covid, anti-China, foreign and economic policy.

The clear view of UK business remains that a substantive UK-EU deal should be the priority; a UK-US FTA risks preempting the relationship with the UK's current main trading partner - and some US business voices agree. The UK's forthcoming G7 Presidency is an opportunity to champion a new multilateralism in economic, trade and health policy in the wake of the global pandemic and start to rebuild international cooperation.

Can a UK-US bilateral 'mini-deal' this year help encourage the US back into the global economic community? Or will it close the door on the 'Global Britain' agenda and draw the UK into an emerging US foreign and economic policy based on anti-China bilateralism? That is the strategic challenge for the UK Government as it begins bilateral negotiations with the US on a UK-US FTA.

Political and Economic Snapshot

	UK Snapshot	US Snapshot
Strategic Interest	The US is the UK's second largest trading partner (after the EU) and the UK is now conducting trade negotiations in parallel. Post-COVID, a US trade deal could signal restarting of the economy, and Britain's first 'success' as an independent trading nation.	Limited commercial interest in a UK-US trade deal – as the UK is a relatively small trading partner. But the upcoming election means Trump is seeking momentum and allies for his post-COVID economic and anti-China foreign policy.
Timeline and Capacity	A UK-EU deal must be struck by the end of the Transition Period (end of 2020) unless the UK asks for, and is granted, an extension. Though time is limited, the Covid-19 response is sapping energy from all Government activity, including trade policy.	Negotiations are only just starting; the forthcoming US elections will stall developments over the summer and bilateral US FTAs typically take over two years to negotiate. The Covid-19 response is also sapping energy from trade policy. Both sides have to contend with video rather than in-person negotiations.
Tariffs	The UK hasn't yet set its tariff schedules at the WTO: unclear what it has to give, but likely to be small. There are possible UK gains from lowering agricultural tariffs on US imports.	The US' focus is on the removal of tariff-rate quotas and tariffs in agriculture, autos, chemicals, and alcohol, similar to the US stance in TTIP negotiations.
NTBs and Regulations	Clear interest in reducing NTBs with the US but that may make it harder to negotiate a deal with the EU, particularly in areas where the EU is concerned about a 'race to the bottom' e.g. agriculture and labour standards.	US interest in removing NTBs to trade in agriculture and pharma - but no appetite for financial services or public procurement.
Politics and Negotiability	The UK is still finding its feet as an independent trading nation, and has spent limited time working out its offensive / defensive trade interests – especially where multilateral cooperation is needed for the post-Covid economic recovery. Significant Conservative majority means Boris Johnson will likely find support for his preferred course of action.	November US election means Trump administration is already on campaign footing. Trump wants "Buy America" protectionism and his mercantilist approach to trade to be an election issue. Covid-19 accentuates 'America First' mentality.

Figure 1: Political and Economic Snapshot of UK and US

Methodology

Objectives

The UK's departure from the EU on January 31st renews the importance of examining the US deal closely and considering what might have changed two years on. This paper revisits research from our previous May 2018 paper *On the Rebound: Prospects for a US-UK Free Trade Agreement*,[2] written amid turbulent politics and long before the 'writing was on the wall' for a UK departure from the EU. *On the Rebound* concluded with seven main points:

1. The UK needs a deal, but it is unclear how committed the US is
2. There is a clear power imbalance between the US and UK
3. The UK must strike a deal with the EU before it can negotiate an FTA with the US
4. The UK will have little to gain and will have to concede more on tariff reductions than the EU offered in the Transatlantic Trade and Investment Partnership ("TTIP")
5. The US demands on non-tariff and regulatory issues will be politically contentious and difficult for the UK to meet
6. Negotiating non-tariff and regulatory issues will force the UK to choose between regulatory alignment with the US or EU
7. The US cannot, or will not, concede on many British non-tariff and regulatory objectives.

Conclusion: Both US and UK officials are doubtful that a meaningful deal can be reached.

We now seek to revisit whether these findings and our conclusion still hold, given the tumultuous events since the publication of our 2018 paper. Preparations for a deal with the US have progressed significantly: and negotiations kicked off on the 5th May building on the publication of negotiating mandates on both sides and six meetings of the UK-US Trade and Investment Working Group. The nature of the UK's future relationship with the EU following its departure from the bloc is now clearer, in particular the UK has ruled out a customs union and is rejecting regulatory harmonisation, both of which offer wider scope for repositioning towards the US.

Our paper will look into these developments, examining several key sectors of importance to the UK and US economies: agriculture, digital trade, the NHS, and financial services. We situate our findings within the wider context of the political economy of international trade, including:

- The impacts of Covid-19
- Other UK trade negotiations, such as the "rollover" deals which copy the existing EU agreements with countries including South Korea and Switzerland
- The changing global trade landscape as the US continues to pursue bilateral trade deals over regional or multilateral arrangements
- Pressures on multilateral institutions as the WTO appellate body falls below quorum in the number of appointed judges

Approach

The research for this paper was based on a mix of personal interviews and research. Over the course of both papers we have conducted over 100 interviews, including with high ranking representatives from The Office of the United States Trade Representative ("USTR"), the Department of State ("DOS"), the Department of Commerce, and the Department of Treasury.

[2] Sands P., Balls E., Sethi M., Hallam E., Leape S., Weinberg N, M-RCBG Associate Working Paper No. 89, *On the Rebound: Prospects for a UK-US Free Trade Agreement*, 2018

On the UK side, we interviewed senior civil servants in the Treasury, Cabinet Office, Bank of England, the Department for International Trade, and British officials working closely with EU institutions.

To ensure that we have properly mapped the interdependencies between different deals we spoke to European Commission about the impacts on the UK-EU trade deal. In addition to the interviews, we have studied the official releases of the US and UK government, and the academic literature on the topic. While most of our interviews were conducted prior to March we conducted follow-up interviews with a range of government and business players in early May to review whether our initial findings were impacted by the Covid-19 crisis.

We would like to express our gratitude to all of those who spoke with us. We are enormously grateful to the senior government officials who took the time to speak with us anonymously. Due to the sensitive nature of their roles in the negotiations we cannot attribute quotes to these senior officials individually. A list of interviewees has been presented to John Haigh, co-director of the Mossavar-Rahmani Center for Business and Government at Harvard Kennedy School. Some of business experts we interviewed also chose to remain anonymous. In addition to the interviews, we reviewed the constantly growing body of literature on this topic being published on both sides of the Atlantic.

Structure of the Paper

The paper begins with a short summary of the political and policy developments in UK and US trade policy over the last few years, offering background to the wider context in which this deal is taking place. The status of the UK's negotiations on the EU-UK FTA, and post-Brexit trade policy are offered as a crucial backdrop to any agreement with the US. In the background section we provide a progress update on the UK-US trade deal, including the negotiating objectives published by both sides.

Having set out the context of the paper, drawing upon our interviews as well as our research, we present our main findings about the prospects of a deal. Each finding is grounded in the opinions that we heard over the course of our research.

Background

Covid-19 and the global trade landscape

Covid-19 is transforming the global economy. Efforts to contain the spread of the virus have led to the suspension of normal economic activity. Consequently, the world economy has ground to a standstill, disrupting international trade flows: the World Trade Organisation ("WTO") has predicted a contraction of international trade volumes of between 13% and 32% in 2020 alone.[3]

The impact on global supply chains is ugly - people cannot go to work, borders are closed and manufacturers are shut leading to a breakdown in global supply chains, airfreight is prohibitively expensive due to a plummet in plane traffic[4] and ships are leaving the United States empty.[5] Although factories in China and other Southeast Asian countries such as Vietnam are slowly restarting, manufacturers in Europe, the United States and India remain closed or at partial capacity. New Covid-19 restrictions on travel and transportation are introducing new barriers to the movement of goods and non-remote services. Global trade levels are affected by logistical issues as well as lower output. Sectors with complex international supply chains, such as electronics and automobiles, are particularly affected.

The impacts are likely to last long beyond 'lockdown'. We are already seeing signs of a dampened appetite for globalised free trade. Firstly, the role of global trade and movement in the spread of the Covid-19 has led to calls against open borders.[6] Disruptions to international supply chains raise fresh questions regarding the outsourcing of production abroad, increasing vulnerability to disruption.[7] Actions taken by governments during the pandemic to restrict exports of medicines and medical equipment further highlight the public health threat of reliance on imports.[8]

Both commentators and politicians have used the current crisis to question the role of economic integration. The EU's Internal Market Commissioner Thierry Breton suggested that Europe may have gone "too far in globalisation", and European politicians including Angela Merkel have begun to call for critical manufacturing to return to the EU.[9] Peter Navarro, Donald Trump's economic advisor, commented to the Financial Times that the global public health emergency demonstrated the need to "reduce America's foreign dependencies".[10] Whether this will translate into genuine action once the pandemic lifts remains to be seen.

The Covid-19 pandemic has escalated the international rivalry between the US and China, a relationship that was already on a poor footing due to the trade war. The American and Chinese administrations are engaged a blame-game regarding the source of the virus, with lawsuits threatened and a tit-for-tat expulsions of journalists on both sides.[11,12] Trump has put reprisals against China at the centre of his 2020 election bid and is banging the drum for restoring tariffs against China to hold it 'accountable'.[13] This anti-China stance is not just reflected in Donald Trump's views; a recent Pew Research Survey showed that roughly two-thirds of surveyed US adults have an "unfavourable" view of China.[14]

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[3] World Trade Organisation, *Trade set to plunge as Covid-19 pandemic upends global economy*, 8 April 2020
[4] Reuters, *Air freight rates skyrocket amid passenger flight cuts, Chinese factory restarts*, 10 March 2020
[5] The New York Times, Global Trade Sputters, Leaving too Much Here, Too Little There, 10 April 2020
[6] Thiessen, T., *Europe Borders May Be Closed Until September: U.S. COVID-19 Threat*, 11 April 2020
[7] Fontaine, R., *Foreign Policy, Globalization Will Look Very Different After the Coronavirus Pandemic*, 17 April 2020
[8] Bloomberg, *Germany Faces Backlash from Neighbours over Mask Export Ban*, 9 March 2020
[9] Politico, *Coronavirus won't kill globalisation, but it will clip its wings, 7 April 2020*
[10] Financial Times, *US official hits out at hoarding of coronavirus medical supplies*, 5 March 2020
[11] Financial Times, *US places new restrictions on Chinese journalists*, 2 March 2020
[12] Bloomberg New Economy, *The Coronavirus might kill globalisation*, 21 March 2020
[13] Foreign Policy, *As If Things Aren't Bad Enough, Trump Mulls Fresh Trade War with China,* 4 May 2020
[14] Pew Research Center, *U.S. Views of China Increasingly Negative Amid Coronavirus Outbreak*, 21 April 2020

UK Trade

The UK is a highly trade dependent country. In 2019, the UK's total trade (imports and exports) equalled £1.4tn, of which £724.5bn was imports and £698.6bn was exports. Exports as a percentage of GDP was 30%.[15] In the same year, £672.5bn (47.3%) of the UK's total trade was with the EU and £750.6bn (52.7%) was non-EU. The UK's top 10 non-EU trading partners include the US, which in 2019 accounted for 15% of total trade, China at 5.1%, Switzerland at 2.6% and Japan at 2.2%.

The vast majority of the UK's trade is with the EU, although the US makes up a significant proportion of UK goods and services exports (20%) and imports (13%).

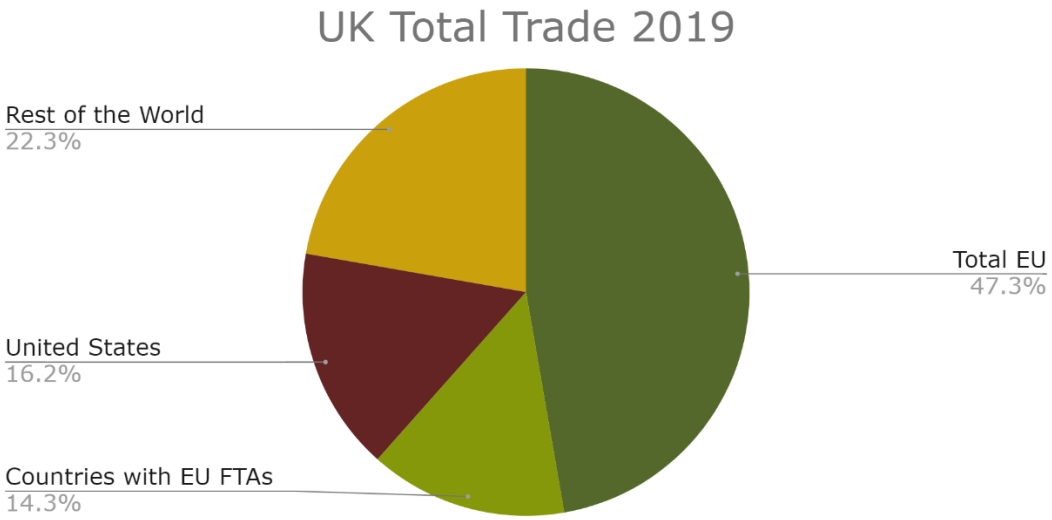

Figure 2: UK Total Trade (Exports + Imports) 2019. Source data ONS

Status of EU - UK Future Partnership Negotiations

As of 31st January 2020, the UK has left the EU and has entered the transition period, during which the UK remains a part of the EU's trading arrangements. Departure from the EU means that the UK has restored exclusive competence over its trading arrangements and is now free to negotiate trade deals during the transition period. However, any trade deal reached between the UK and a third country will not begin until the transition period ends at the end of December 2020.

In order to prevent tariff and NTBs from emerging between the UK and EU Member States, the UK needs to agree a deal with the EU before the close of the transition period at the end of 2020. The negotiations on post-transition arrangements began in March. Although both sides want to negotiate a zero-tariff, zero-quota relationship, the EU's insistence that "zero-zero" can only be achieved if the UK pledges not to undercut EU rules. So far, this has been an insurmountable source of tension during the negotiations. The UK's chief negotiator David Frost clearly set out that London would not budge on the topic of 'level playing field rules', even if that meant losing privileged access to the Single Market.[16] The EU's Chief Negotiator responded to this position emphasising that the EU will not grant extensive market access if it diverges from the EU's social and environmental standards.

If no trade deal is agreed with the EU by the end of the transition period, the UK will default to trade on "WTO terms" with the EU, creating significant economic disruption. This means the UK would apply tariffs specified in their WTO schedules to the EU and all other WTO members with which bespoke FTA agreements are not signed.

[15] Source: World Bank national accounts data, and OECD National Accounts data files.

[16] The Spectator, *Full text: Top UK Brexit negotiator David Frost on his plans for an EU trade deal*, 17 February 2020

For the UK, EU markets take 43% of UK exports and the US 20% - in comparison, US export markets are much more diversified, with the UK taking 6% of US exports

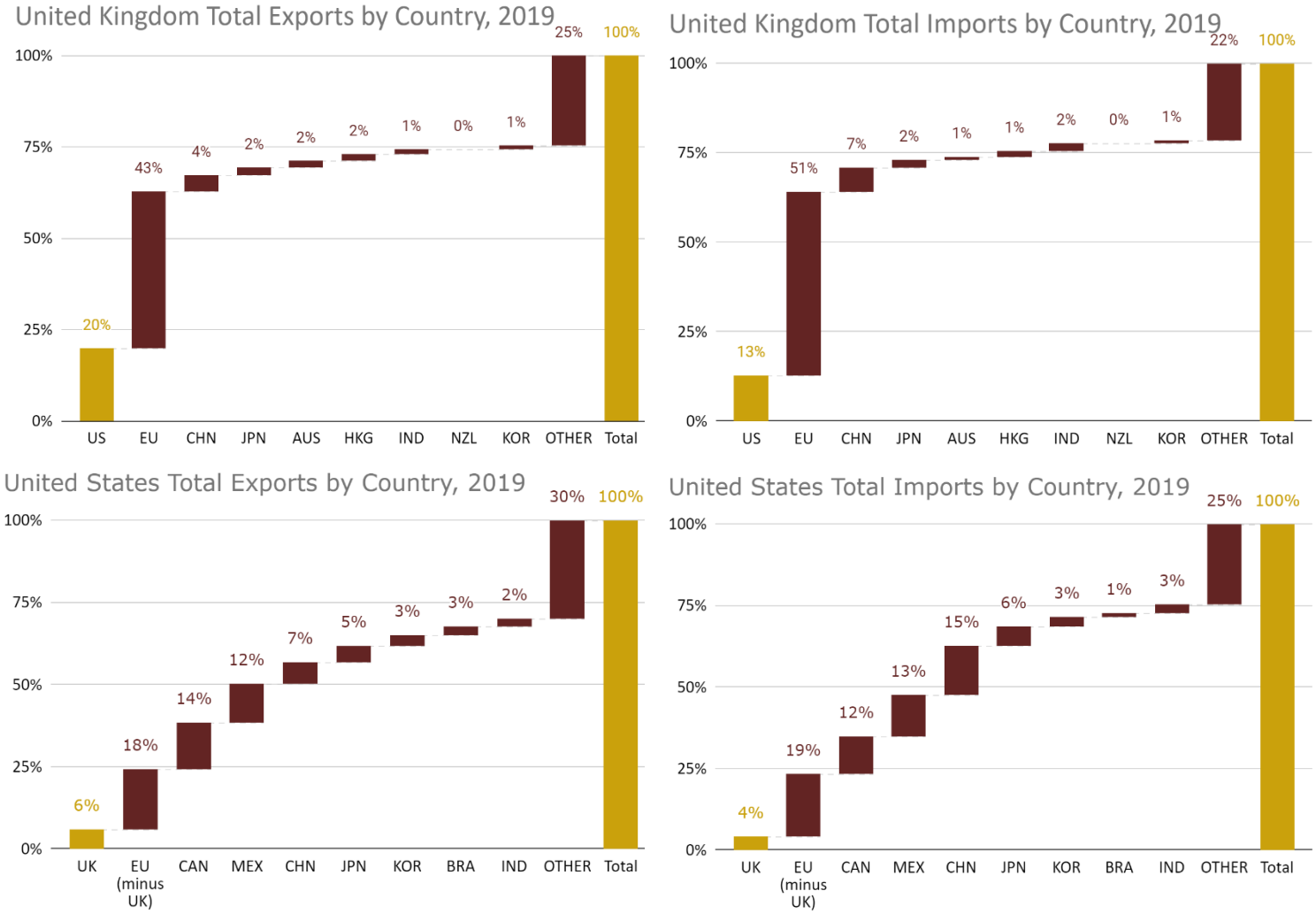

Figure 3: Proportion of exports and imports for the UK and US, 2019. Source: ONS (UK) Census Bureau FT900, Form 20 (US)

Focus on new deals and the development of the UK's trade capacity

With the UK beginning to find its feet outside the European Union and looking to 'replace' the privileged access of the Single Market, there is now a big focus on trade deals. The UK is prioritizing four post-Brexit FTAs: with the US, Australia, New Zealand, and Japan, and one multilateral deal: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP"). Figure 6 overleaf shows UK Trade in with proposed FTA partners. The Conservative manifesto included a pledge to have 80% of UK trade covered by FTAs within three years.[17]

To deliver these deals the Department for International Trade ("DIT") Trade Policy Group, which oversees DIT activities opening up overseas markets, has rapidly scaled up in size, growing from 119 staff when opened in 2016 to 650 staff in February 2019.[18] Of all the proposed DIT deals the US deal is the most prominent. The US is Britain's largest single trading partner: $261.9bn goods and services were exchanged between the two countries last year[19].

EU	Negotiations on the UK-EU relationship began on March 3 but have been stalled by Coronavirus. The UK is aiming for a basic 'no tariff, no quota' FTA before December 2020.
US	By far the largest of the proposed FTAs. Total trade between the UK and US was worth £230.3bn in 2019. Major exports include financial and professional services, machinery and transport, and UK beverages and tobacco.
CPTPP	Exploration about possibility of UK joining CPTPP in future. Exports identified are chemicals, beverages and tobacco. Imports financial services. Total trade £95.8bn - under half of trade with USA.
Japan	The UK is advancing its preparations for a UK-Japan trade deal anticipated to impact agri-food, pharmaceuticals and autos.[20]
Australia	Main UK Exports are machinery and transport (1/10th that exported to US), imports are travel services and beverages and tobacco.
New Zealand	Trade with New Zealand worth £2.9bn in 2019 (under 2% of trade with the US). Exports travel services, imports food/animals and beverages and tobacco.

Figure 5: UK ambitions for future free trade agreements

The USTR claims the US runs a $18.9bn surplus in trade with the UK,[21] although there have historically been discrepancies with this data: Both the UK and US claim to be running large surpluses in services trade with each other, particularly in the financial services sector.[22,23] The business and financial services sector account for 61% of UK service exports to the US.[24] The most active trade in goods between the UK and US in 2017 is in machinery and transport equipment.[25]

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[17] Mikhailova, A., Hope, C., Hymas, C., Sheridan, D., The Telegraph, *Conservative Party manifesto: What are Boris Johnson's policies and NHS plans?*, 14 December 2019

[18] The National Audit Office, *The Department for International Trade: Preparing for trade negotiations*, 17 May 2019

[19] Office of the United States Trade Representative, *United Kingdom*, 2018

[20] Department for International Trade, *UK advances preparations for new UK-Japan Economic Partnership*, 20 September 2019

[21] The Wall Street Journal, *After Brexit, a U.S. Trade Deal*, 28 August 2019

[22] Financial Times, *US and UK report trade surplus with each other*, September 2017

[23] EY, *UK and US Trade: Prospects for a free trade deal*, June 2019

[24] Webb, D., Jozepa, I., Ward, M., House of Commons Library: Briefing Paper, *Future free trade agreements: US, CPTPP, Australia and New Zealand*, 20 February 2020

[25] EY, *UK and US Trade: Prospects for a free trade deal*, June 2019

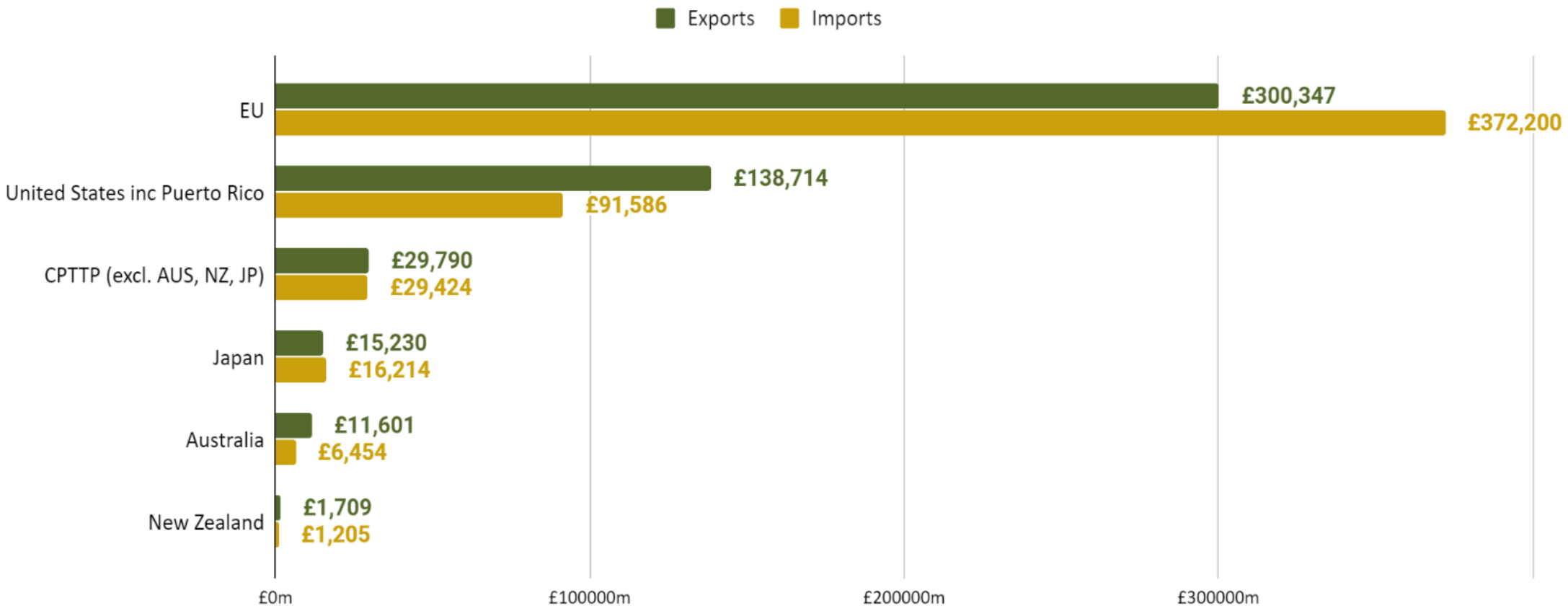

Figure 4: UK Trade with proposed UK FTA partners, 2019. Source data: ONS.

However, DIT is also spread thinly on other issues. The UK's access to preferential trade agreements previously signed with the EU ceases at the end of the transition.

So far, the UK has put in place "rollover" agreements with 20 of the 39 countries or trade blocs that the EU has trade deals with 3 of those countries (Andorra, San Marino and Turkey) are part of a Customs Union with the EU and so the UK's future trading relationship with them will be resolved following finalisation of a UK-EU deal.[26] There are concerns that some of the 'rollover deal' countries may seek to renegotiate the terms of trade, aiming to forge a better deal.[27]

Total UK-EU trade in 2019 stood at £672.5bn. A 5% reduction in trade would amount to a loss (on 2019 figures) of £33.6bn of trade. We have calculated the percentage trade increase that the UK would need with some of its top-10 non-EU trading partners in order to compensate for such a loss.

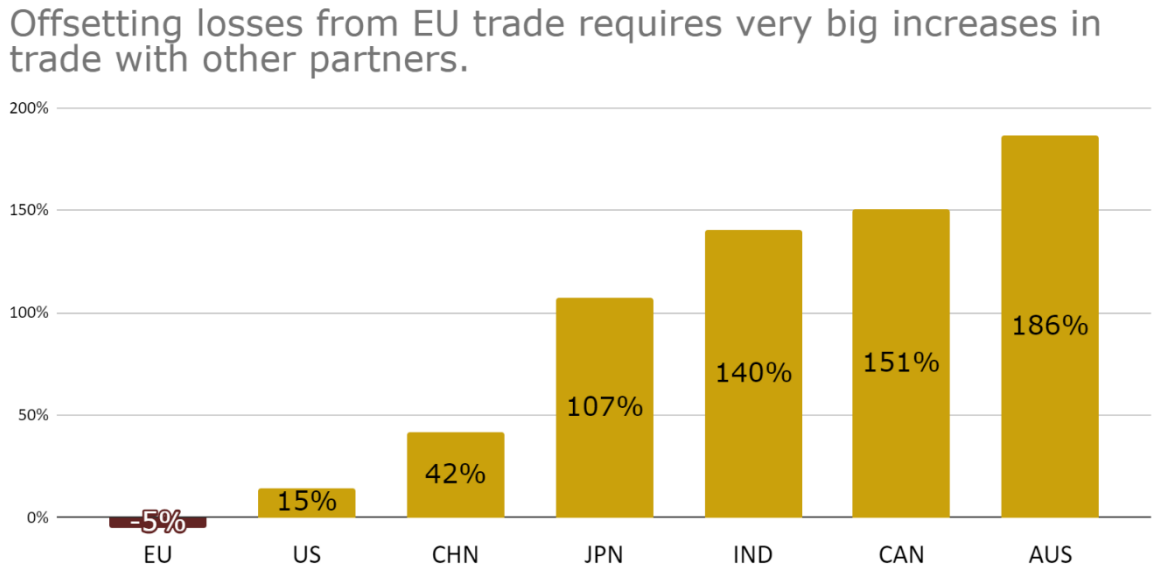

Figure 6: Percentage increase in trade needed to offset a 5% reduction in trade with the EU, 2019. Source: ONS

US Trade

International trade is significantly less important to the US economy than for the UK. Exports of goods and services from the United States made up just over 12% of US gross domestic product (GDP) in 2019 compared to the UK's 30%.[28] The UK is an important trade partner to the US; however, it lags in terms of imports and exports behind the US' neighbours and trade partners, Canada and Mexico; and in terms of imports behind Germany and Japan.[29] There is a significant trans-Atlantic trade in services, particularly in tourism and financial services.

Although the US has long been a guardian of the global trading system, recent years have seen the US pivot towards the use of bilateral trade deals for political purposes.

[26] UK Government, *UK trade agreements with non-EU countries*, Feb 2020

[27] Hix, S., London School of Economics, *Can Britain forge a better trade deal with South Korea, this is why it is unlikely*, 7 February 2017

[28] Exports of goods and services (% of GDP), World Bank national accounts data, and OECD National Accounts data files

[29] Walker, A., Palumbo, D., BBC, *The UK-US Trade Relationship in Five Charts*, July 2018

The US has moved towards negotiating specific deals that promote 'America First' interests[30]. In the last few years American decision-making around trade has become driven by domestic policy priorities[31]. Slogans such as 'buy American' and 'hire American' have been translated into action through confrontations with the world's largest trade economies, China and the EU, over domestic priorities including intellectual property, steel and aluminium production and automobiles. The recent disputes over Huawei's inclusion in international telecommunications networks follow this pattern.

Alongside locking horns with the world's largest economy, America has also moved away from the comprehensive and multilateral trading regime towards discriminatory, preferential FTAs. In recent years, the US has struck a number of these FTAs with smaller partners including Canada and Australia. The form of these trade agreements, in particular the renegotiation of NAFTA, merit attention as they demonstrate a new pattern in US commercial diplomacy;[32] in that they exploit obvious disparities of power between negotiating partners. An obvious example in USMCA is the clause concerning Canada and Mexico's ability to negotiate with China in the future. The trade deals do not follow a strict template, as some US concerns such as minimum-wage price competition may be applicable to some partners such as Mexico, but not others such as Australia. However, the primacy of domestic goals, and delivery for political stakeholders, shapes all of these FTAs.[33]

The upcoming presidential election will play an important role in determining the future US approach to trade. Should Trump win a second term it is likely that the move away from multilateralism will continue, and even if Biden wins, uncertainties are likely to weigh heavily on the global economy.

Progress towards a US-UK deal

A 'Trade and Investment Working Group' was set up in early 2017 with a focus on providing commercial continuity for US and UK businesses as the UK leaves the EU. The aims of the working group were to deepen the bilateral trade and investment relationship and 'lay [the] groundwork' for a future FTA once the UK has left the EU.[34] On 16 October 2018 the US Administration formally notified Congress under the Trade Promotion Authority (TPA) of its intentions to enter into trade negotiations with the UK.[35] On 6th May the first formal UK-US trade talks began.

The US published its negotiating objectives in early 2019. The US' biggest priority is to see a major reduction in the UK's tariffs on steel imports, as well as a reduction or end to the digital tax on tech giants.[36] We set out full details in the table overleaf. The UK published its own objectives for its negotiations to be led by Crawford Falconer, an experienced trade negotiator from New Zealand.[37] Trade Minister Liz Truss has identified that the UK is seeking big tariff reductions from the deal[38] as part of an "ambitious and comprehensive" FTA that protects workers and consumer rights and works to 'level up' the whole of the UK. The first round of negotiations, conducted by videoconference began on May 5th.

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[30] Lynch, D., Washington Post, *President Trump has celebrated a pair of "America First" trade deals he says will end the unfair treatment of American workers*, February 2020

[31] VanGrasstek, C., *The Trade Policy of the United States under the Trump Administration*, November 2019

[32] Ibid.

[33] Ibid.

[34] Office of the United States Trade Representative, *U.S. - UK Trade Agreement Negotiations*, minutes of the Trade and Investment Working Group Meetings, 1st meeting of the working group, July 2017

[35] Congressional Research Service, *Brexit and Outlook for a U.S.-UK Free Trade Agreement*, 12 February 2020

[36] Dunn, T., The Sun, *Boris Johnson and Donald Trump agree to strike UK-US trade deal by July 2020*, 23 September 2019

[37] Office of the United States Trade Representative, *U.S. - UK Trade Agreement Negotiations*, minutes of the Trade and Investment Working Group Meetings, 6th meeting of the working group, July 2019

[38] MacLellan, K., James, W., Reuters, *UK seeks big tariff reductions in U.S. trade deal*, February 2020

Economic Impact Estimates

Departure from the EU is expected to have a large negative impact on the UK economy, given the introduction of new costs and other frictions between the UK and its current largest trading partner. The possibility of a free trade deal with the US has been presented as a possible way to ameliorate this shock in the short and long term. Research supports the theory that a US-UK free trade agreement could ameliorate the negative impact of Brexit, although only partially.

As set out in figure 8 the UK has costed - pre-Pandemic – the potential gains from a US deal. It was estimated that UK GDP gains from tariff liberalisation and a 25% reduction in non-tariff measures could lead to a long-run (15-year) welfare increase of 0.07% (£1.6bn). If the UK is able to get a 50% reduction in non-tariff measures the projected welfare increase rises to 0.15%. These figures are dwarfed by the scale of the UK's losses from exiting the EU. If the UK is able to strike an 'average' FTA with Europe, estimates suggest that this will lead to a 4.9% (£112bn) reduction in GDP in 15 years' time. Compounding this is the economic shock of Covid-19, which the Office of Budget Responsibility estimates could cause a 12.8% contraction in GDP in 2020 alone.[39]

Trade Deal	Change to GDP over 15-years (lower range – upper range)	Impact in £ on GDP[40] over 15 years[41]
UK-US trade deal with no tariffs and 25% reduction in non-tariff barriers[42]	+0.07% (+0.02% to 0.15%)	£1.6bn($2.1bn)
UK-US trade deal with no tariffs and 50% reduction in non-tariff barriers[43]	+0.16% (+0.05% and +0.36%)	£3.4bn ($4.4bn)
UK-EU Average FTA[44]	-4.9% (-6.4% to -3.4%)	-£112bn (-$144bn)
UK-EU No Deal[45]	-7.6% (-8.9% to 6.2%)	-£174bn (-$223bn)
Net GDP loss if average FTA and UK-US with no tariffs and 50% reduction in NTBs	-4.74% (-6.38% to -3.25%)	-£108bn (-$139bn)

Figure 7: Projected impact of concluding different EU deals

[39] Office of Budget Responsibility, *Coronavirus Analysis*, 14 April 2020
[40] £/$ conversion figure taken from date of the report
[41] UK-US FTA - February 2020, and UK-EU agreement - November 2018
[42] DIT, *UK Negotiation Mandate*, February 2020: Scenario 1
[43] DIT, *UK Negotiation Mandate*, February 2020: Scenario 2
[44] HM Government, *EU Exit: Long-term economic analysis*, November 2018
[45] Ibid.

Levelling up the UK?

In its negotiation mandate the UK pledged an FTA to 'level up' the UK. The mandate stresses that a deal will deliver for the whole UK economy with benefits for each region. Examples include an increase in Whisky and Salmon exports for Scotland, increase in car exports for the Midlands, and manufacturing export growth for Northern Ireland. We tested the reliability of these propositions by looking at the regional distribution of US trade. Unsurprisingly, for all regions of the UK a much higher proportion of their exports go to the EU rather than the US. However, export markets for areas such as Wales, Yorkshire and the Humber and North East England tend to be more focused on the EU markets compared to the US. Areas such as London, West Midlands and South West saw the opposite pattern of reliance. This puts in doubt the government's claims that a US FTA will offer the 'levelling up' of the regions that the negotiation mandate claims.

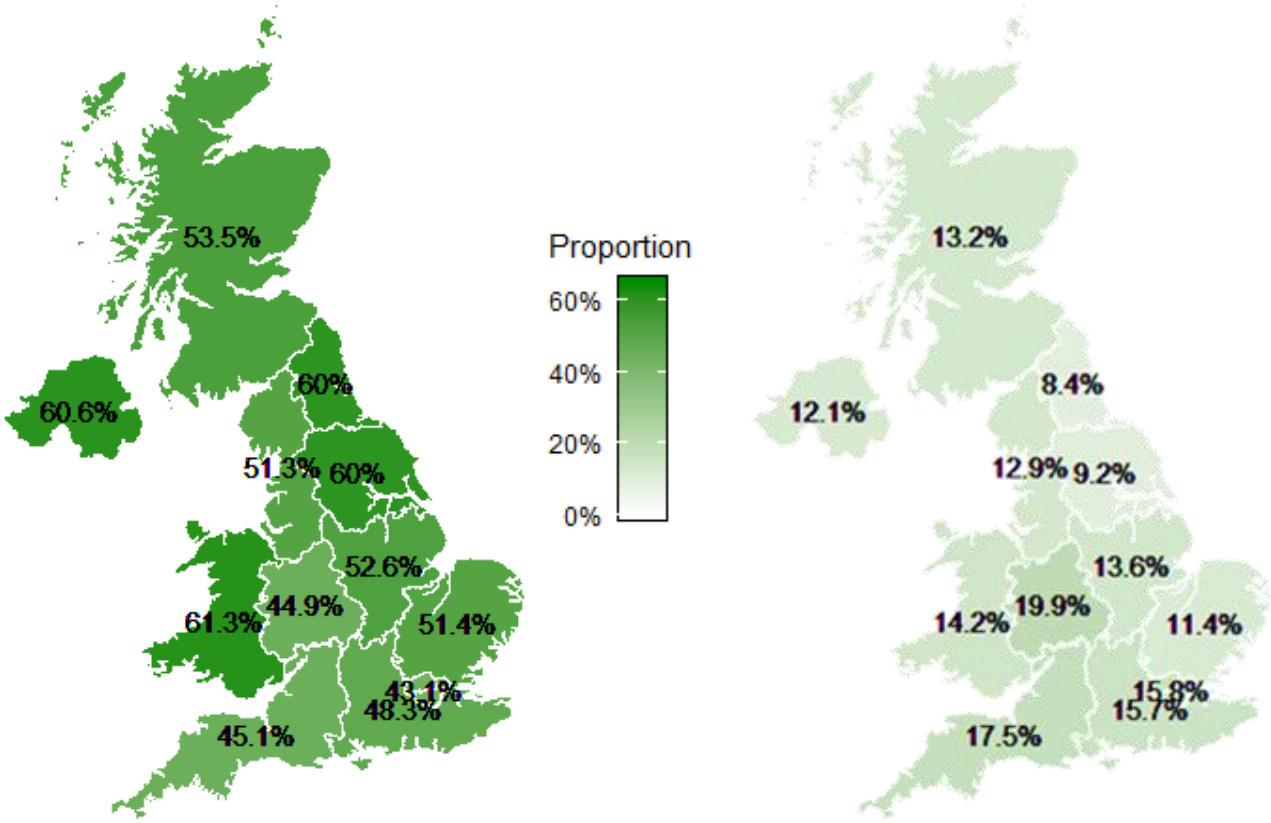

Figure 8: Exports to EU (left-hand graph) and US (right-hand graph) by region, 2018. Source data: ONS.

Finding 1: With the UK now out of the EU, a quick deal with the US offers an obvious launchpad for the 'Global Britain' agenda - and a way to show economic momentum as lockdown restrictions lift

The UK has now left the EU and is focused on restoring an independent trade policy, as a part of a move to showcase the new 'Global Britain'. The possibility of a US-UK deal was a key point of debate during the original Brexit referendum campaign in 2016,[46] when the Vote Leave campaign explicitly identified the 'failure' of TTIP as an example of an area on which an independent UK could improve.[47] The election of Donald Trump in 2016 radically changed the US tone from Obama's muted warning that Britain would be in the "back of the queue" in trade negotiations if they voted to leave.[48] In 2017 President Trump told Theresa May he expected a trade deal to be completed "very, very quickly".[49]

Since Boris Johnson became Prime Minister the transatlantic relationship has become even closer, with Trump offering repeat overtures about the possibility of an FTA. A Trade and Investment Working Group was set up to lay the groundwork for a potential future trade agreement,[50] and negotiation objectives have been published on both sides.[51] Despite the Covid-19 crisis the UK and US kicked off negotiations on the 5th May 2020. The first round of talks, lasting two weeks, are taking place between International Trade Secretary Liz Truss and US Trade Representative ("USTR") Robert Lighthizer.[52] Liz Truss, in a letter launching the first round of negotiations stated that "More trade is essential if the UK is to overcome the unprecedented economic challenge posed by Covid-19".[53]

Departure from the EU and Covid-19 have amplified the importance of a US deal for the UK government

Now that the UK has left the EU, the Johnson government is under pressure to provide evidence that the decision to 'Brexit' was worthwhile. A deal with the US has captured the political imagination; offering market access to the world's largest economy, validation of the UK's independent approach and an opportunity to partially ameliorate the negative impact of Brexit and Covid-19. In the event of an EU-US agreement, these gains would be reduced for the UK, as trade would be diverted between the two larger economies.[54]

A Senior UK Government Official

"Grabbing hold of this deal is a way of creating new opportunities for the huge number of people who have lost their jobs through Covid-19"

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[46] Oreskes, B., Guida, V., Politico, *The bright side of Brexit? A US-UK trade deal*, 24 June 2016

[47] Vote Leave Campaign, *Vote Leave to create 300,000 British jobs*, 12 May 2016

[48] Oreskes, B., Guida, V., Politico, *The bright side of Brexit? A U.S.-U.K. trade deal*, 24 June 2016

[49] Asthana, A., The Guardian, *Trump expects trade deal with the UK to be completed 'very, very quickly'*, 8 July 2017

[50] Gov.uk, *Fifth Meeting of the UK-US Trade and Investment Working Group*. 9 November 2020

[51] Gov.uk, *The UK's approach to trade negotiations with the US*. 3 March 2020

[52] The Express, *Boris gives 'green light' for Brexit Britain to start formal US trade talks, NEXT WEEK,* 2 May 2020

[53] Parliament Committees, *Letter from the Secretary of State to the Chair relating to a Free Trade Agreement between the UK and the United States*, 5 May 2020

[54] Jackson, K., Shepotylo, O., Economic Modelling, *Post-Brexit trade survival: Looking beyond the European Union*, June 2018

Senior Official, State Department

"With the UK having left the Single Market, the most comprehensive FTA that exists, it is understandably highly motivated to strike as many FTAs as possible."

Mike Cherry, Federation of Small Businesses

"The US is the most commonly reported single country destination market for SME exporters over the next three years with 46 percent of our exporting small business members considering the US important for their exporting ambitions."

Covid-19 throws up a new set of challenges for globalisation. The ways in which low barriers to movement allowed for the spread of the pandemic, and concerns about supply chain fragility have led to calls for localised supply chains and reduced freedom of movement.[55] Covid-19 has further inflamed US-China tensions, with attempts by the US administration to label the virus "Chinese Virus".[56] Yet following the pandemic it also grants a means to signal that both governments have put the economy back into motion.

Professor Anand Menon, King's College London

"*Coronavirus creates a new political contract which first changes the calculation around trade deals; and second changes the calculus around a deal with largely symbolic gains - the political imperative to get such a deal increases from governments who will want to show they're up and running again. This will create an increased incentive to sign something*."

There is a strong political imperative for a deal

A swiftly concluded deal with the US is politically attractive. Progress on trade deals other than the UK-EU deal offers a way for the UK government to present its vision of a 'Global Britain', freed from the constraints of the EU.[57] It offers the UK an opportunity to demonstrate proactive efforts to kickstart the economy post Covid-19 and counters the narratives that the UK has no viable trading future outside the EU. Given the lack of confidence that ongoing UK-EU negotiations will deliver a deal, a deal with the US would bolster the credibility of the UK's negotiating team and political confidence in the current UK government. It would enable the UK to 'show up' the EU by agreeing a trade deal with the US after attempts to negotiate the TTIP fell apart.

A Senior USTR Advisor

"Maybe the only way to get the EU to take the UK seriously is if the UK signs a "phase 1" type deal with the US."

A Senior Whitehall Official

"The US would like to make progress with us on a deal, more than your original report suggested. It will allow Trump to fulfil domestic political ambitions ahead of the election"

[55] Financial Times, *Coronavirus and globalisation: the FT answered your questions*, 15 April 2020

[56] The Hill, *Trump's use of the term 'Chinese Virus' for coronavirus hurts Asian Americans, says expert*, 25 March 2020

[57] See for example Kim Holmes, The Heritage Foundation, *A Truly Special Relationship: The Time is Now for a U.S.-UK Free Trade Agreement*, 18 June 2019

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"For the UK, negotiation with the US is very important – it will show that, unlike the EU, Britain can reach a deal with the US."

There is clearly a significant political advantage for Boris Johnson in getting some form of deal agreed soon, as the government unveils its plan to get the economy moving again. The Conservative majority in Parliament improves Johnson's ability to manoeuvre and to grant concessions to secure an agreement.[58] Boris Johnson and President Trump have played up their personal relationship as one of shared attitudes and values: Trump has repeatedly celebrated Boris Johnson by tweet.[59]

A Senior UK Finance Official

"Having been on pause because of Covid-19, negotiations have now started - but the idea of making substantive progress is really quite difficult. It depends on the politics: both sides might want a quick and easy win. We don't know what dynamic will emerge."

Emanuel Adam, British American Business

"Given the political momentum is so strong and the UK and US have done a lot of leg work over the last three years, something can be done."

Rosa Crawford, Trades Union Congress

"Trump has the incentive to show that he is looking out for the interests of a like-minded government."

UK Think Tank Trade Expert

"The Boris Johnson government in particular is keen to use other trade deals to leverage its positions with the EU. It allows the UK to send a message saying "We have other friends to talk to."

A UK-US Free Trade Agreement taps into desires to reanimate the power of the Anglosphere.[60] Many Eurosceptics see themselves as more closely aligned to the United States than the European Union.[61] The perception of a special relationship both drives belief a deal can be reached, and that a deal can enable re-alignment outside of Europe.

Lourdes Catrain, Hogan Lovells

"The UK gives a lot of importance to the 'special relationship' with the US. After the EU, the US is the most important market."

David Henig, UK Trade Policy Project

"Politically the deal with the US has always been an article of faith to a small group of Brexiteers"

However, a deal has limited economic upside; and many questioned whether the emphasis on striking a US deal is as important for the UK as presented.

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[58] @realDonaldTrump, "Congratulations to Boris Johnson on his great WIN! Britain and the United States will now be free to strike a massive new Trade Deal are BREXIT. This deal has the potential to be far bigger and more lucrative than any deal that could be made with the E.U. Celebrate Boris!". 1:08 AM 13 December 2019

[59] Ibid.

[60] Bell, D., Prospect, *The Anglosphere: new enthusiasm for an old dream*, 19 January 2017

[61] Dunin-Wasowicz, R., LSE, *The power of the Anglosphere in Eurosceptical thought*, 10 December 2015

It also pulls against UK government messaging elsewhere, instead of focusing on narrow alliances or agreements, recent weeks have seen the UK openly promote a multilateral approach to the international order, increasing funding to the WHO, international coordination on finding a vaccine and seeking access to EU health cooperation despite Brexit.[62]

Meredith Crowley, University of Cambridge

"It has always been apparent that a trade deal with the US wouldn't bring much in terms of quantitative empirical benefits for the UK. There is a need for government to show that they're able to achieve something in the realm of trade, but to be politically useful this needs to wages in the pockets of British workers; to avoid disappointment."

Professor Larry Summers, former US Treasury Secretary

"The greatest risk is the UK overestimating its hand."

In conclusion, our first finding is that with the UK now out of the EU, a quick deal with the US offers an obvious launchpad for the 'Global Britain' agenda - and a way to show economic momentum as lockdown restrictions lift:

- **The UK left the EU on the 31st January. With departure comes the restoration of the UK's ability to independently negotiate and agree to trade deals with other countries**
- **Seen by supporters as a big Brexit upside, a UK-US FTA is presented by the Government as a panacea to the economic shock caused by leaving the EU and now the global pandemic**
- **UK-US negotiations continue to be a UK government priority through the pandemic - it offers an opportunity to chart a return to 'business as usual'**
- **On COVID-recovery related issues, the UK has, in recent weeks, been prioritising multilateral cooperation - e.g. vaccines, support for the WHO, and emerging countries through the IMF. Can the UK get the US on board?**

[62] The Guardian, *UK seeks access to EU health cooperation in light of coronavirus*, 2 May 2020

Finding 2: Despite Trump's rhetoric, it is not clear whether the US is actually committed to delivering a mutually beneficial deal

US commitment to doing a deal with the UK remains unclear. President Trump has made grandiose statements about a US-UK deal, proclaiming that it has the "potential to be far bigger and more lucrative than any deal that could be made with the E.U."[63] Yet, simultaneously National Economic Council Director Larry Kudlow has scaled back expectations by briefing that a post-Brexit trade deal with the UK is not a top priority for the White House,[64] casting into doubt Trump's commitment to concrete action.

Interviewees questioned the extent to which positive rhetoric would mean a 'friendly' negotiation process. The Trump administration's approach to trade policy has focused on bilateral agreements with smaller partners in which the US can leverage a clear power advantage due to the size of its economy and negotiating team experience.

The UK's interests would be best met by a 'bespoke' deal which could cover areas such as financial services, government procurement and other professional services. Yet recent history suggests that the current administration's preference is to use past deals as a 'template' for future deals. The power imbalance between the UK and US may therefore undermine the UK's ability to demand tailored terms.

President Trump also faces competing pressures likely to divert his attention in the coming months, between battles over the Covid-19 exit strategy and the start of the presidential election cycle. Trump needs to show economic momentum to win the election; but it is unclear whether this is best pursued via trade policy. Even then, Trump's attention seems to be elsewhere, following a recent announcement to negotiate an agreement with Kenya that could provide a template for further deals in sub-Saharan Africa.[65]

Our previous paper found serious power imbalances between the UK and US; those imbalances remain.

Our previous paper found that any trade negotiation between the US and UK would be shaped profoundly by the power imbalance between the two parties. This imbalance derives from the relative scale of each economy, and the relative institutional experience in trade negotiation. In the fourth quarter of 2019, just prior to the Covid-19 related economic crisis, US GDP was $21.73 trillion – between seven and eight times that of the UK in Q4 2019, at $2.824 trillion.[66] [67] Our interviewees stressed that size translates into a power difference, with the potential relative payouts being much higher for the UK than the US. But other factors, including political benefits in the US and the opportunity to appease key sectors, may raise the relative importance of a UK deal despite its smaller economy.

A Senior USTR Adviser

"A UK-US deal would be great economically for the US and would help the future US negotiations with the EU as well. Anxieties on the UK side that it doesn't have any leverage and so can be steamrollered are overblown - this is a big deal for the US."

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[63] @realDonaldTrump, 1:08 AM, 13 December 2019

[64] Chambers, F., Daily Mail, *Britain is NOT 'first in line' for a post-Brexit U.S. trade deal, White House warns Boris Johnson as Donald Trump's top economic aide says UK will NOT be ready for one soon*, 6 September 2019

[65] U.S. Embassy in Kenya, *Trump announces Intent to Negotiate Trade Agreement with Kenya*, 6 February 2020

[66] U.S. Bureau of Economic Analysis (BEA), *Gross Domestic Product*

[67] Office for National Statistics, *Gross Domestic Product Statistics*

Dan Ikkenson, Cato Institute

"The size of the US is considered an asset by this administration - it would certainly throw its weight around."

Professor Robert Lawrence, Harvard Kennedy School

"What does the US really want or need from a deal with the UK? Not much."

Senior Official, State Department

"The US is a much larger economy than the UK. Both the US and the UK can be on a common playing field and align within certain sectors, such as IT."

Professor John Van Reenen, Massachusetts Institute of Technology

"Look at the raw bargaining power; the UK is a very small country, whereas the EU and US are similar sizes. It's like asking for a date when the other person is five times better looking than you."

Mike Spicer and David Bharier, British Chambers of Commerce

"There is a massive imbalance in the market size. The market access benefits are potentially much larger for UK firms than they would be in reverse."

The UK has not needed significant domestic trade negotiation capability for the past 40 years, as the competency to negotiate trade deals has rested with the European Commission. The Department for International Trade ("DIT") is relying on comparatively inexperienced staff - a lack of experience in trade negotiations has been cited as a serious challenge for Whitehall.[68] Sheer numbers seem to be compensating for experience: the DIT Trade Policy Group grew from 119 staff at its inception in 2016 to 650 by February 2019.[69] USTR had 265 full-time staff members in January 2019.[70] Alongside USTR's ability to draw experience from other federal departments such as the State Department and Treasury, it has depth of experience difficult to rival for a UK department that has only existed since July 2016.[71]

Shanker Singham, Institute of Economic Affairs, former USTR and UK Trade Secretary advisor

"The UK is the 'new kid on the block' when it comes to trade and has to build capacity in trade negotiations. This is something other countries have spent decades building."

David Bharier and Mike Spicer, British Chamber of Commerce

"Since the UK has not had an independent trade policy since joining the EU, the institutional depth will unavoidably be shallower than other markets with established trade negotiation practices."

David Wright, Former Senior EU Commission Official

"Anyone who has done trade knows how difficult it is; it is basically a reciprocity-based set of arguments and trade-offs. It takes a long time and is very complicated; and there is very little in the WTO that helps you at all."

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[68] Ilott, O., Stelk, I., Rutter, J., Institute For Government, *Taking Back Control of Trade Policy*, 2017

[69] Dunton, J., Civil Service World, *NAO flags staff shortages at Department for International Trade*, 17 May 2019

[70] Behsudi, A., Politico, *Shutdown hits USTR*, 14 January 2019

[71] Civil Service World, *Theresa May signals Whitehall rejig with two new Cabinet posts*, 13 July 2016

Emanuel Adam, British American Business

"The UK hasn't had to do trade policy for 40 years, and now is starting from scratch on trade competency."

Paul Tucker, Chair of the Systemic Risk Council

"A state should be judged by how it handles big things. Coming after Iraq2, Libya, the financial crisis and its aftermath, the state's early response to Covid-19 is the latest in a series of signals that there needs to be a serious improvement in the British state's capability if it is to implement the Brexit overhaul effectively."

While interviewees were aware of the political salience of the Anglosphere, especially in the face of a global crisis, they were keen to caution against the assumption that the US will give the UK 'special treatment' on the basis of historical ties. In practice, such niceties fall away quickly in the hard realities of a trade negotiation.

Anand Menon, King's College London

"The same politics that applies in the US also applies in the UK; the assertion of the Anglosphere is politically valuable. But we don't yet know what the impact of Covid-19 is on attitudes towards globalisation and openness, it might reinforce protectionist politics."

Jeff Schott, Peterson Institute of International Economics

"People don't talk about special relationships when you're cutting a deal and asking the other side to concede."

John Wakeman, Software Industry Business Executive

"The Brits have always felt the 'special relationship' is important. But it is only senior politicians in the US that pay lip service to it - as an easy way to get good headlines in the UK press."

The US is now willing to exploit power advantages for domestic political purposes

Under President Trump, the US has moved towards attempting to secure new trade deals on a bilateral rather than multilateral basis. The current strategy relies on the fact that outside the constraints of the rules-based WTO system, the US is able to fully exploit its economic clout to extract concessions from the other side.

US trade policy has taken a turn away from the US' role as leader of the multilateral system towards 'America First' mercantilism, a position that Covid-19 further entrenches.[72] New deals prioritise cutting US trade deficits and protectionist measures that centres production of goods into the US, policies designed to score political favour with key parts of Trump's voter base such as blue-collar workers, [73] and to show government action to replace some of the 22 million plus jobs lost during the crisis.[74] The new deal struck with China is an example of this approach, the US extracted a Chinese commitment to purchase additional American exports based on 2017 levels, including $52.4 billion of energy exports, $32 billion of agricultural commodities, $77.7 billion of manufactured goods and $37.9 billion of services.[75]

[72] VanGrasstek, C., *Trade and American Leadership*, 2019

[73] Schlesinger, J., Wall Street Journal, *Trump's 'America First' trade vision comes into focus on three fronts*, 15 December 2019

[74] Guardian, *Five million more Americans file jobless claims as Covid-19 downturn deepens - as it happened*, 16 April 2020

[75] Eavis, P., Rappeport, A., Swanson, A., New York Times, *What's in (and Not in) the U.S.-China Trade Deal*, 15 January 2020

A Senior USTR Advisor

"What the Americans are asking now though is: why did we create an economy that doesn't allow ventilators, or masks, or testing kits, or reagents to go into testing kits? All that production capacity went to China, a lot of folks here will be asking how we can do things differently"

Dan Ikenson, Cato Institute

"The current administration is committed to "managed" trade agreements where deals have predictable outputs and revitalise the US manufacturing base."

Meredith Crowley, University of Cambridge

"From a US perspective there are much larger gains to be had from pursuing CPTPP than USMCA or a UK trade deal, but it is about extracting rents for domestic political groupings; and finding ways to disperse these rents. The whole thing is mercantilist. The US is looking at particular industries it can force open, for example pharmaceuticals in the UK, and will pursue provisions that help achieve this".

Gary Hufbauer, Peterson Institute for International Economics

"The current administration is a protectionist administration, and likes protection in certain industries, autos being one of them. This will definitely be a factor in the US-UK talks."

David Wright, Former Senior EU Commission Official

"We're dealing with a powerhouse who protects."

Trump's approach is informed by his and wider public perceptions of trade deficits as 'problems' to be fixed. Trump has frequently cited the trade deficit between Mexico, Canada and the US as a sign that the original NAFTA trade deal was "bad".[76] This goes against conventional economic logic which would argue that trade deficits arise due to national saving and investment rates rather than the features of a trade deal.[77] Many US negotiating priorities are focused on areas where the United States wants to protect its trade surplus, such as digital services, or where America's surplus has been threatened, such as steel and aluminium production.[78] The centrality of the trade deficit in US trade policy formation can be clearly seen in the notes of the Trade and Investment Group meetings.[79]

Sharon Treat, Institute for Agricultural Trade Policy

"Trump has gone for some deals where it's not particularly clear what he's trying to accomplish other than to score a 'political win' that his base will like. It may not matter to Trump what the 'win' actually looks like."

Nikhil Datta, Centre for Economic Performance, London School of Economics

"In a deal with the UK, the US will be focused on goods. This won't be appropriate for our service-based economy where our comparative advantage is in finance and business services."

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[76] @realDonaldTrump, 6:47AM, March 5, 2018

[77] Gagnon, J., Peterson Institute for International Economics, *We Know What Causes Trade Deficits*, 7 April 2017

[78] Office of the United States Trade Representative, *Summary of Specific Negotiating Objectives*, February 2019

[79] Office of the United States Trade Representative, *U.S. - UK Trade Agreement Negotiations*, minutes of the Trade and Investment Working Group Meetings, 2nd meeting of the working group, November 2017

This takes place against the backdrop of a weakening global trading system, which works in favour of US tactics

The Covid-19 pandemic is projected to reduce world merchandise trade by 13-32% in 2020, an impact which is nearly twice as large as that of the financial crisis. It may also transform appetites for multilateral trade by undermining support for global supply chains.[80] Effort to reignite multilateral trade rounds will be difficult: the limited liberalisation of services in the Uruguay Round and collapse of the Doha Round may have spurred a greater focus by members on pursuing bilateral and regional preferential trade agreements which offered deeper integration than that possible at the WTO.

The multilateral framework has been hampered by the loss of quorum for the WTO Appellate Body which issues rulings on trade disputes. This loss of enforceability works well for President Trump's unilateral approach of raising tariffs to protect against unfair pricing ("dumping") or subsidies in the absence of a WTO ruling or attempt at dispute resolution. WTO law does allow for the application of protective tariffs, for example in the event of "national security" concerns. However, the US now applies these tariffs tactically to bring trade partners to the negotiating table.

Dennis Novy, Warwick University

"We will have a new system whereby the big players dictate the rules of the game- US, EU and China - if they don't want to cooperate it will just be an old-fashioned power-play. This means that medium sized countries are not as well placed."

The new US tactics are obvious in recently concluded bilateral deals, including US-Mexico-Canada and US-Australia

The US has developed a 'boilerplate' package deal which it has advanced in consecutive trade deals over recent years (e.g. US-AUS, USMCA). Provisions in these deals aimed at advanced economies appear in the UK negotiation objectives. For the US, striking a bespoke deal requires a significant additional amount of investment and time relative to the readymade package. It therefore appears likely that the US will push for the UK to accept a "standardised" agreement with only minor variations. This reflects the wording of the negotiating objectives, which mirror many provisions in recent US FTAs, and the experience of the TTIP negotiations. The 'off the shelf' approach allows for quicker, narrow deals, leaving thorny issues still on the table.

A Senior USTR Advisor

"This administration regards the USMCA as a paradigm for other trade deals. It is very hard to get 380 Congress representatives to vote for anything. In trade negotiations, the US will say "This is language we know Congress is happy with, which they have approved in the past. They'd be happy to go stronger than this but not weaker than this."

Marianne Rowden, American Association of Exporters and Importers

"Trump will probably try to make quick agreement by using USMCA as a template."

Ignacio Garcia Berrero, EU fellow at Oxford, previously chief TTIP negotiator

"There are limits on what the US will be willing to put on the table. The US has very little room to manoeuvre beyond what is reflected in their standard trade agreements and this will be reduced with the current policies of the Trump administration."

[80] WTO, *Trade set to plunge as Covid-19 pandemic upends global economy*, 8 April 2020

Craig VanGrasstek, Harvard Kennedy School

"Trade is an important instrument of US foreign policy; America is using its hegemonic interests to secure trade in the US interests - that is why we see so little variation in the negotiating priorities for the UK and other states."

Some of our interviewees pointed to the USMCA as a potential blueprint for future UK-US agreement. Much of the language in the Objectives for the NAFTA Renegotiation mirror those in the US-UK FTA Specific Negotiating Objectives. Areas of the USMCA which may be relevant for the UK-US FTA include:

- **Rules of Origin**: The USMCA introduced stricter rules of origin on automobiles in order to benefit from zero tariffs. Where supply chains in the UK and US are linked the US may try to push for stronger rules of origin, the USTR Specific Negotiating Objectives for the US-UK FTA aim to "ensure that the rules of origin incentivize production in the territory of the Parties, specifically in the United States."[81]
- **Intellectual Property:** The intellectual property chapter of the USMCA extends copyright term to 70 years beyond the life of the author, and the period during which a pharmaceutical drug can be protected from generic competition.[82]
- **Investor-State Dispute Settlement (ISDS):** ISDS is a mechanism through which investors can sue states for breaches of trade deal treaties.[83] USMCA eliminated ISDS systems between the US and Canada, and restricted the application of ISDS between the US and Mexico.[84] This suggests the US may be willing to drop or restrict its application in a UK-US deal.
- **Digital Trade:** The digital trade chapter of USMCA prohibits customs duties being applied to digital products. This would run afoul of the UK's recently implemented "digital tax". It also limits government ability to require disclosure of proprietary source code and algorithms, and limits the civil liability of internet platforms such as Youtube for third-party content that such platforms host.[85]

Chapters of the TPP may also prove illuminating; as much as 57% of the text in USMCA is copied from the text of the Transpacific Partnership (TPP).[86] TPP measures on services, data and investment introduced liberalising services trade are also likely to appear.[87]

Professor Robert Lawrence, Harvard Kennedy School

"USMCA was a sea change, because it showed what Democrats would agree to. Now we have an agreed-upon template, we will take it to all other trading partners."

Peter Holmes, United Kingdom Trade Policy Observatory

"The negotiation objectives are brazenly one-sided. Take the example of demands on Rules of Origin which are to maximise trade between the parties, but in particular are about supporting US exports."

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[81] Office of the United States Trade Representative, *Summary of U.S.-U.K. Specific Negotiating Objectives*, February 2019

[82] Kirby, J., Vox, *USMCA, Trump's New NAFTA deal, explained in 600 words*, 16 January 2020

[83] Miller, S., Hicks, G., Center for Strategic & International Studies, *State Dispute Settlement: A Reality Check*, January 2015

[84] Congressional Research Service, *U.S.-Mexico-Canada (USMCA) Trade Agreement*, 30 January 2020

[85] Office of the United States Trade Representative, *UNITED STATES–MEXICO–CANADA TRADE FACT SHEET: Modernizing NAFTA into a 21st Century Trade Agreement*, October 2018

[86] Alschner, W., Panford-Walsh, R., Ottawa Faculty of Law Working Paper No. 2019-28, *How Much of the Transpacific Partnership is in the United States-Mexico-Canada Agreement?*, 4 July 2019

[87] Holmes, P., Jensen, J., Lydgate, E., Weymouth, S., Wilkinson, R., Winters, L., UK Trade Policy Observatory, *The Future of UK-US Trade: An Update*, July 2019

The 'boilerplate' approach means UK negotiation objectives are unlikely to be met

The US approach means that 'wins' for the UK in negotiations are likely to be much more difficult, as the US is unlikely to adapt agreements in areas where the UK has something to gain. US negotiating terms protect US industries, such as steel and tech, and ensuring supply chains remain in the US. This is not necessarily in the UK's interests.

For example, the UK would likely choose to prioritise greater access to US financial services markets, given that financial services are the largest UK service export.[88] This could include streamlined processes for authorisation to provide financial services cross-border, or greater deference between regulators to avoid overlapping regulatory requirements. However, historically the US Treasury has been extremely reluctant to allow for trade negotiations to touch upon its remit in financial services regulation. Interviewees experienced in the TTIP negotiations cited US reluctance to allow for any concessions on financial services.

Jeff Schott, Peterson Institute for International Economics

"In some respects, USMCA is a state-of-the-art US template."

Dan Ikenson, Cato Institute

"Is USMCA that transferable to the UK? It is not a good template."

EU Commission TTIP Negotiator

"Although we tried to convince the US to put financial services on the table [during the TTIP negotiations] there was very strong opposition. I would imagine that it would be the same case for the UK Treasury at this point in time. This might be outside the context of a trade negotiation."

Confidence about a deal has been buoyed by strong positive intimations about a deal from America

Notwithstanding the aggressive US approach towards trade negotiations outlined above, Boris Johnson's optimism for a deal was bolstered, pre-Covid-19, by senior US political visits to the UK stressing the possibility for a deal before the 2020 elections. From a US perspective, a deal with the UK doesn't contain too much political risk. In general, in the US, voters don't mind trade deals with richer countries and quick 'wins' can be fuel for Trump's election campaign. Moreover, many experts view a US-UK FTA as more feasible than a US-EU FTA, given the US-UK 'special relationship', historical similarities in trade approaches and the size of the EU.[89]

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"The US has expressed in no uncertain terms their interest in a deal. They've gone beyond the normal limits of diplomacy to try and force the issue with the UK"

Professor Robert Lawrence, Harvard Kennedy School

"Republicans will want to show that Trump is not a protectionist. The US has a trade surplus with the UK, so it is politically easier to sell a deal."

[88] Office for National Statistics, *International trade in services, UK: 2018*, 31 January 2020

[89] Congressional Research Service, *Brexit and Outlook for U.S. - UK Trade Agreement*, 11 April 2019

Andrei Cazacu, British American Business

"US trade policy has been "personalised" in the past 3-4 years. The president wants to showcase how much of a dealmaker he is, so trade deals before the election look good."

The US sees geopolitical advantages to striking a deal with the UK, in diminishing the influence of the EU regulatory process and demonstrating EU intransigence on trade. The US may also seek to draw the UK into a stronger anti-China anti-multilateral stance. Secretary of State Mike Pompeo expressed support for a deal, promising "we'll be on the doorstep, pen in hand, to sign a new free trade agreement at the earliest possible time."[90]

Professor John Van Reenen, Massachusetts Institute of Technology

"Trump would really like to weaken the EU and sees trade as a zero-sum type of situation. Doing a deal with the UK would help geopolitically undermine the strength of Europe. "

Sharon Treat, Institute for Agricultural Trade Policy

"One of the things the US wants to do is have this "backdoor to the EU" from Britain. Its benefits are not just potentially this deal with Britain, but an entry into the EU market in ways that undermine EU standards either explicitly or de facto."

A Senior UK Government Official

"The talks could conclude with a political statement that pulls the UK towards an anti-China, anti-cooperative view of the world"

Yet messages have been mixed, and may amount to nothing more than hot air

The mixed messaging from the US on a deal with the UK indicates that there isn't necessarily a consensus view within Trump's own mind, let alone between Trump and his officials, on whether a deal with the UK is a priority. Some interviewees highlighted that the US is progressing multiple different trade deals in the run up to the presidential elections and will prioritise those most likely to bear fruit before the end of the year.

A UK Senior Official

"Earlier this year Larry Kudlow (White House Economic Adviser) said that an EU-US deal is a priority before a UK-US deal. I don't think a UK-US deal is likely in the short-run, but your original conclusion, that a deal wouldn't happen anytime soon isn't as true as it was."

John Wakeman, Software Industry Business Executive

"The UK is much smaller as a market - digital advertising is more advanced in the UK compared to Europe but at best only 25% of the total prize. Trump may be creating an impression he cares about the UK but the numbers speak for themselves."

A Senior UK Government Official

"One of the most challenging aspects for the UK is the gap between what the president says in public and in private; and what the US machinery around him does. Will the President's enthusiasm and warm words translate into a deal?"

[90] Barfield, C., American Enterprise Institute, *The US-UK free trade agreement: Not so fast*, 12 August 2019

Dan Ikenson, Cato Institute

"Trump will be willing to walk away and embarrass the Johnson government, despite his promises. Trump will want to show himself as a master negotiator — he's a bully, and he will use any advantage he can get."

The US interest in pursuing a deal with the UK has wavered routinely depending on other US foreign policy interests. White House economic adviser Larry Kudlow stated that reigniting TTIP negotiations with the EU will be easier than starting from scratch with the UK.[91] Following the decision of Boris Johnson to allow Huawei to supply part of the UK's 5G infrastructure, relations between the US and the UK appeared to cool significantly.[92] Other geopolitical priorities, most obviously containing and responding to the fallout from Covid-19, may suck political energy out of efforts for a deal.

Paul Tucker, Chair of the Systemic Risk Council

"Within the US administration there are also likely to be divisions, for example, between the president and securocrats around Huawei and USTR on a US-UK free trade agreement and it's read across to US/EU negotiations."

A UK Senior Finance Official

"There is a prospect for doing something pre-November, but whether negotiations get stuck really depends on what the White House thinks of this, and what the White House wants to do."

Congress must agree to any substantive FTA, and both Covid-19 and the election timetable make that impossible.

Realistically, even if Trump does want a deal, any comprehensive trade deal which needs to be ratified by Congress would quickly come up against significant opposition. The Democrats now control the House of Representatives and, as seen in the USMCA negotiations, are demanding substantial changes in trade agreements.[93] In particular any US-UK trade deal which moves the UK away from regulatory alignment with the EU could create upset in the Democratic party; Nancy Pelosi stated that any trade deal would be a "nonstarter" in Congress if it imperils the 1998 Good Friday Agreement ("GFA").[94]

A Senior USTR Adviser

"From the US perspective, the things that we will consider are:

1. *Is this a deal worth announcing knowing we'll have pushback from the Democrats?*
2. *Will this require any Congressional action, when as a practical matter Congress won't do anything before an election?*
3. *Is it a deal in the short-term something that would make the latter deal, a full FTA, harder?"*

[91] Leonard, J., Donnan, S., Bloomberg, *Top Trump Adviser Says UK Slips Behind EU in Trade Priorities*, 10 February 2020

[92] Driscoll, S., The Hill, *Huawei threatens the US-UK 'special relationship'*, 4 February 2020

[93] Barfield, C., American Enterprise Institute, *The US-UK free trade agreement: Not so fast*, 12 August 2019

[94] Johnson, K., Foreign Policy, *Capitol Hill Could Imperil Any New U.S.-U.K. Trade Deal*, 9 August 2019

L. Alan Winters, University of Sussex

"The issue of the Good Friday Agreement is not as clean cut and settled as the British government would have you believe. Working out the details of the Northern Ireland protocol will be quite a nightmare."

Lourdes Catrain, Hogan Lovells

"The Irish border is a risk - –there are many powerful Irish influences in the US govt with close relationships with Irish stakeholders."

Meredith Crowley, University of Cambridge

"If something goes wrong with this whole Northern Ireland border over the course of negotiations, they're not going to be able to get a deal through Congress. The US doesn't necessarily trust the promises that there will be no border checks, we just don't know if they'll commit to installing all the necessary technology on the Irish sea."

The upcoming US elections add to the uncertainty.

A change in US leadership could reset negotiations. A Democratic administration may differ from Trump both in terms of general attitudes towards trade, and broader geostrategic interests. Joe Biden, Democratic nominee for the Presidency, has historically had a positive view of the multilateral rules-based system, and was instrumental in allowing Chinese accession to the WTO.[95] This could affect the likelihood of a US-UK FTA by changing the US prioritisation of a UK versus an EU trade deal.

Professor Larry Summers, former US Treasury Secretary

"Any deal not ratified by Congress will be null and void if you get a new president. The deal doesn't matter for the US economy, and will violate Democratic principles around trade, as Biden is calling for the US to stop being unilateral."

Lourdes Catrain, Hogan Lovells

"On the basis of past EU-US relationships with Democratic presidents, it's fair to say that they would very much look at the EU first, before the UK, just because of the historical relationship and importance of the EU market."

Paul Tucker, Chair of the Systemic Risk Council

"Many US "realists" find the EU uncomfortable because it seems to defy their belief that states cannot enduringly cooperate. But I would not rule out the possibility that US officials wake up to the prospect that a divide and rule approach to Europe suits Beijing's book really well. If that awakening happens, a US administration could switch tack on its approach to Brexit trade talks rather dramatically."

Finally, the upcoming presidential election introduces a timing element to the process of negotiating an FTA with the UK. If a trade deal needs to go through Congress, it would be difficult, if not impossible, for it to pass through all necessary congressional hurdles before the end of summer. Even under "fast-track" Trade Promotion Authority numerous notification requirements to Congress are incumbent upon the Executive Branch. The President must notify Congress 90 days before signing a trade agreement.

[95] Wilkie, C., CNBC, *Biden and Sanders' fight over trade is a war for the future of the Democratic Party*, 9 March 2020

Even if Congress was notified on the date of publication of this paper, it wouldn't be signed until early August, when campaigning would be at full throttle. Following this, a series of reports and mock markups must be prepared for Congressional consideration.[96]

Even after the elections a deal will be difficult as the US needs to renew the Trade Promotion Authority ("TPA"), the Congressional tool that allows Presidents to negotiate trade deals which is set to expire on July 1, 2021.[97] The legislation, considered important for US trade deals, is likely to further delay progress on negotiations.

Ignacio Garcia Berrero, EU fellow at Oxford, previously chief TTIP negotiator

"Progress is unlikely immediately after the election. A new US administration could only be up and running by March / April at the earliest. The US TPA expires next year, which means that a Trump and Biden administration would have to make a decision about whether to extend TPA."

Jeff Schott, Peterson Institute for International Economics

"It isn't possible to do a deal at all before elections. Not under the Trade Promotion Authority. The agenda is just too big."

Senior Government Official, State Department

"Trade deals typically take 2-3 years. Doing one in 4 months would be unprecedented."

Covid-19 makes a full FTA before the US elections impossible

Despite the announcements on trade negotiations starting, our interviewees suggested a full new trade deal, given the progress made so far and Covid-19, is simply not possible in the short term.

A Senior UK Finance Official

"There was an opportunity at the beginning of the year, but Covid-19 has distracted everyone; the practicalities of doing negotiations by videoconference is incredibly difficult; making substantive progress on an FTA unlikely. Negotiations will start, but we don't know what dynamics will emerge. Nothing will happen before November unless it is something very simple on tariffs or a political declaration. It depends on what the White House wants to do."

Lourdes Catrain, Hogan Lovells

"It is impossible for any comprehensive trade agreement to go through Congress before the summer, even meeting a deadline of the end of the year is not realistic."

Ignacio Garcia Berrero, EU fellow at Oxford, previously chief TTIP negotiator

"I can't see how something substantial is going to be delivered in the middle of this crisis; negotiating in the midst of this crisis will be difficult, apart from the substantive issue of the deal receiving proper scrutiny. I don't know what the UK expects at this point in time, but a serious FTA will have to wait."

A UK Senior Official

"We are going to try and get going on the negotiations. It is unclear yet whether there will be a big push to conclude a deal, or whether bandwidth means it is really hard, but we recognise that the scope to conclude something in the next year is going to be really tough."

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[96] Congressional Research Service, *Trade Promotion Authority (TPA)*, 21 June 2019

[97] Politico, *Trump-Biden battle for blue collar workers will revive trade debate*, 17 April 2020

A Senior Whitehall Official

"There is quite a lot of support in Congress for a deal, but as ever there will be challenges with getting it through Congress in time."

The Covid-19 crisis has restricted bandwidth and created complications for negotiations - forcing a transition to videoconferencing. Between the demands on governments in responding to the crisis, and the adjustments that negotiators need to make to the next realities of conducting negotiations online, it is incredibly unlikely that a full FTA can be reached. This bolsters our finding from interviews conducted before the Covid-19 crisis, that a full agreement couldn't be reached before the summer.

Thomas Sampson, London School of Economics

"The Covid-19 crisis means policy makers will have limited capacity to deal with other issues for the foreseeable future. This makes rapid progress towards a UK-US FTA less likely."

Professor Larry Summers, former US Treasury Secretary

"It is delusional to think that a US-UK trade deal will happen anytime soon. It is simply not possible."

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"The window on a US-UK FTA is closing - if there is no meaningful progress on the deal by the summer it will get difficult to get moving again in the near future."

But a political 'mini-deal' that doesn't require Congressional approval is still a runner

Although the prospects of the UK concluding an FTA within the time-period seem fanciful, a 'mini-deal' or some form of agreement could offer an easy way to secure a much-vaunted political victory, even if it offered scant trade benefits and was struck during the Covid-19 crisis. Talks have already begun on the FTA,[98] which could result in a 'mini-deal' that includes a range of promises around future trade, yet does not require an actual FTA. This would help to deliver on the UK government's wish to flaunt its newly restored control over trade policy, and enable Trump to secure a pre-election victory without needing Congressional approval. Additionally, a 'mini-deal' could be sold to the public as 'momentum building' towards a comprehensive deal over a long timescale.

Dennis Novy, Warwick University

"There is a political prize in having 'a deal', that in itself is valuable, even if the substance might be rather shallow."

Andrei Cazacu, British American Business

"President Trump wants to showcase that he is a dealmaker - trade deals before the Presidential election look good. Getting an agreement by November won't be easy, but both sides seem to get that a strong deal will also be part of the economic recovery post-Covid, so it's possible we may see some good progress being made in just a few months."

[98] Parliament Committees, *Letter from the Secretary of State to the Chair relating to a Free Trade Agreement between the UK and the United States*, 5 May 2020

In conclusion, our second finding is that it is not clear whether the US is sincerely committed to a bespoke deal with the UK:

- **Economic power imbalance created by relative market size – is the trade detail really worth the effort for the US?**
- **But, Trump needs to show economic momentum and generate international support for his post-COVID, anti-China, worldview.**
- **The US was already moving away from WTO towards bilateral FTAs with smaller partners, and has developed a 'boilerplate' approach to FTAs.**
- **Congress must agree to any substantive FTA and both Covid-19 and the election timetable make that difficult.**
- **But a political 'mini-deal' that doesn't require Congressional approval is still a runner.**

Finding 3: Detailed trade negotiations between the US and UK are going to be tough, with the US conceding little and making demands that the UK will find hard to meet

Having now left the EU, the UK sees an opportunity to find alignment with the US in areas that were previously unavailable. However, the USTR's mandate for UK negotiations, and the template provided by recent US deals like the USMCA and US-AUS trade deal, suggest that it is going to prove extremely difficult for the UK to secure advantages. In conversations with trade experts, we identified several potential barriers to a deal.

The US demands we highlighted in our first paper as likely roadblocks have not gone away

The NHS

One of the biggest hot button issues, the impact on the NHS, is still a fraught area for the negotiating partners; and is likely to become increasingly fraught given the impact of Covid-19 on health systems. Popular media coverage of the UK-US negotiation often focuses on the politically fraught issue of access to the NHS. The importance of this debate can be seen in its central role in the 2019 UK elections,[99] and frequent appearance as a topic for discussion in parliamentary debates. Echoing our 2018 paper, many of those we interviewed for this paper mentioned the widespread hostility to any deal with the US that risked the quality or cost of the NHS. A government press release accompanying the UK's negotiating mandate expressly stated that the NHS is 'off the table' in talks.[100]

The main US negotiating demands regarding NHS are: changes to the NHS drug pricing systems, access to NHS data, and government procurement of NHS services. These are described in the mandate as "procedural fairness for pharmaceuticals and medical devices". While the UK's own mandate specifically states that NHS drug prices will not be up for negotiations, there is still room for procedural changes that favour US firms. However, on each of these three points we saw such heavy political blowback, which will be accentuated by Covid-19 that the prospects for agreement are slim.

On drug pricing, the US is seeking removal of NHS caps on drug prices, opening the door for US pharmaceutical companies to charge the same prices for drugs as in the US.[101] In the recent US-Australia Trade Deal, USTR approached AUSFTA negotiations with an explicit Trade Promotion Authority mandate to seek "the elimination of government measures such as price controls and reference pricing which deny full market access to US products".[102] It is not clear whether the US would succeed in changing drug pricing policy in the UK, as this is an area where the domestic politics are a non-starter, and the US may simply choose not to push too hard in such a politically inflammatory area.

Finally, the US negotiating objectives state a clear intention to "*increase opportunities for US firms to sell US products and services to the UK".*[103]

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[99] *Hansard Debate*, 29 October 2019

[100] Foster, P., Crisp, J., Sabur, R., Jones, A., The Telegraph, *NHS 'off the table' in US trade talks, says Government,* 2 March 2020

[101] Office of the United States Trade Representative, *Summary of U.S.-U.K. Specific Negotiating Objectives,* February 2019

[102] Office of the United States Trade Representative, *Free Trade Agreements Australia*, 10 March 2019

[103] Office of the United States Trade Representative, *Summary of U.S.-U.K. Specific Negotiating Objectives,* February 2019

The reality is that the UK starts from a position of quite liberalised procurement, and many services are already traded. Given the public pressures to 'protect the NHS' and the liberalised starting point, the UK acceding to US demands for liberalisation is unlikely.

Nikhil Datta, Centre for Economic Performance, London School of Economics

"I would be surprised if the UK offers anything on drug prices."

Meredith Crowley, University of Cambridge

"There will now be much greater scrutiny by British and American voters of any agreements over trade in medical supplies, medicines, regulatory approval processes for new medicines, the procedures by which the NHS determines how much/whether it will pay for new medicines, patenting of medicines, licensing of medicines, etc. This enhanced scrutiny will most likely disadvantage the US in the negotiations relative to what it might have been able to achieve pre-COVID."

Thomas Sampson, London School of Economics

The US will push for changes to how the UK prices pharmaceuticals. The big question is: do we have to concede this in order to get a deal?"

Agriculture

As we identified in 2018, the consequences of a US deal for agriculture have formed a significant part of the public debate. The tension between the US model of food safety standards and the existing UK-EU standards have raised fears among the public that a trade deal with the US will lead to imports of unsafe foods and lower animal safety standards.

The fears of "chlorinated chicken" have overshadowed an even larger economic risk: the impact of lowered agricultural tariffs on the UK's food system. Lowered agricultural tariffs are a top priority for the US: the US negotiating objectives seek to "secure comprehensive market access for U.S. agricultural goods in the UK by reducing or eliminating tariffs."[104] While this could represent a significant benefit in the form of lowered food prices, it will depend on food price differentials between the US and UK and whether price reductions actually flow to consumers.[105] Some have raised concerns about the competitive challenges UK farm businesses would face if left unprotected by tariff barriers.

A Senior USTR Adviser

"It's impossible to overstate how much Congress cares about agriculture – US agriculture is very productive, and we now want to work out how to sell it."

Gary Hufbauer, Peterson Institute for International Economics

"There are huge swathes of UK agriculture which could not survive competition from the US - and UK farmers are aware of this. Agricultural interests weigh very heavily and are very influential in determining the US agenda. The sensible move would be to drop agriculture from the negotiations, but this is difficult because key Congressmen and Senators have constituents who are dependent on agriculture and want a deal."

[104] Ibid.

[105] London School of Economics, *The impact of Brexit on the UK dairy sector*, July 2018

Ignacio Garcia Berrero, EU fellow at Oxford, previously chief TTIP negotiator

"I don't see the US wanting a deal that doesn't deliver on agriculture - and I don't see the UK being willing to accede to US demands on agriculture in the short term. This was a difficult issue to negotiate in TTIP as it fed public fears. Even if the US doesn't push on the NHS, it would be difficult to say we've given up protections for our farmers."

William Bain, British Retail Consortium

"Our members report that 79% of the imported food currently sold in the UK comes from the EU – but there are foodstuffs and other products which retailers could consider importing from the US if there was a tariff incentive from an FTA to do so, including citrus, nuts, and fruits."

Sarah Mukherjee, Crop Protection Association

"The food industry and agricultural sector are not very big in the UK. Although people like the concept of British food, in practice, they're not that bothered. If there's a price differential, there will be demand for US products. The assumption has always been that the market will move to higher standards and greater welfare, but that's not necessarily correct - many people simply want low-priced produce."

However, NTBs such as hygiene standards, product safety and technical standards are the greatest blockers of agriculture trade. Substantial NTBs to trade appear in food and beverages (affecting 57% of imports into the EU from the US and 73% vice versa).[106]

There are ongoing debates around whether a trade deal with the US, and the demands for the removal of NTBs, would lead to a deterioration in food standards. The head of the National Farmers Union Minette Batters warned that importing low-standard food would be "insane". [107] The UK commits in its mandate to upholding high food and animal welfare standards, responding to public concerns about the impact of US standards on animal welfare and product safety, but the UK's negotiating mandate does not specifically rule anything out.[108]

The debate has focused on chlorinated chicken imports, and food production issues, but many in the farming industry have been calling for attention to be paid to the question of animal welfare. Many farmers and other groups have raised concerns about the impact of US standards on public, animal and plant health and the wider environment", as the UK develops its own approach on food and environmental standards[109].

However, others see these issues as overblown and see a move away from the EU's strict regime as offering opportunities for agricultural innovation. This fits with the Washington narrative that the EU's agricultural regulations are thinly disguised protectionist measures not based on sound science.[110]

An additional area of concern is the impact on the Northern Ireland border. Although under the Brexit deal reached in October 2019 Northern Ireland will follow EU rules on agricultural goods,[111] some are concerned about the possibility of smuggling of low-standard food between Northern Ireland and other parts of the UK, and the quality of new checks and processes.

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[106] EY, *UK and US Trade: Prospects for a free trade deal*, June 2019

[107] Gallardo, C., Politico, *POLITICO Sunday Crunch: Home Office exit — Brexit, round 1 — Coronavirus containment*, 1 March 2020

[108] DIT, *UK Negotiation Mandate*, February 2020

[109] Harrabin, R., BBC, *What's in the government's new environment bill?*, 15 October 2019

[110] Rodriguez, S., Politico *What US business wants from a U.K. deal*, 27 February 2020

[111] Tan, W., CNBC, *Irish backstop: What new Brexit deal means to Northern Ireland*, 21 October 2019

David Henig, UK Trade Policy Project

"The UK will have to agree to concede something to the US, but making an offer on food will mean more trade barriers with the EU and raise lots of questions about the future of UK farming and the UK food industry"

UK Think Tank Trade Expert

"The US is seen as the country which is most different to the EU in terms of agricultural standards. Some will use this to try to stoke a public backlash. If we had a conversation with New Zealand first, which also pushes for 'science based' agricultural standards, that might be an easier context in which to have a domestic debate about different approaches to regulation."

Sarah Mukherjee, Crop Protection Association

"There are some gains to be made from a deal with the US on agriculture. We see an opportunity for inward R&D investment and innovation, and a more scientific, risk-based, approach. At the moment, regulation is heavily politicised and caters to domestic audiences rather than looking at scientific advice. In the 90s, 30% of agriculture R&D was done in the EU and now that number is just 7%. That's almost entirely due to the EU regulatory process which doesn't encourage scientific innovation."

Sticking points that emerged during TTIP have not gone away

In our 2018 paper we identified a raft of issues that arose during the TTIP negotiations between the US and EU that are likely to resurface. Sticking points that we identified included market access, cultural exceptions, public procurement, dispute settlement, data privacy, and regulatory and standards harmonisation.

Although a bilateral UK-US negotiation is simpler than striving for agreement among all EU member states, many of these issues continue to play a prominent role in public discussions and were raised as ongoing concerns by those we interviewed.

Financial Services

We identified financial services as an area in which the EU was unable to secure US concessions during the TTIP talks. The intense political debates and legislative activity surrounding financial services regulation since the financial crisis means that the US is unwilling to include financial services in any trade deal, a position which is unlikely to change for a deal with a significantly smaller partner, particularly as any US changes would require legislative changes.

Ignacio Garcia Berrero, EU fellow at Oxford, previously chief TTIP negotiator

"The position of the US Treasury [during TTIP negotiations] was that financial regulatory issues should be discussed outside the context of trade agreements."

Angus Canvin, UK Finance

"A major barrier to trade in financial services is having to comply with two sets of rules that have the same overriding objectives. There are significant costs to complying with very detailed and very prescriptive requirements. US-UK arrangements to mitigate the burden of such requirements on groups operating in both markets would promote commerce and trade in financial services between the US and the UK."

Soumaya Keynes, The Economist

"Neither the US Treasury nor financial regulators in London are going to hand over significant control over regulation of financial services to a trade deal. Liz Truss is not about to start serious negotiations on behalf of the City."

Investor State Dispute Settlement System ("ISDS")

Another example of contentious issues is the ISDS mechanism which enables investors to bring claims against states for breaches of standards within trade agreements. Minutes of the meetings of the working group show US interest in including ISDS in an investment chapter,[112] a move which has caused concern among a range of UK stakeholders.

Senior government official, State Department

"The US and UK are both G7 economies, with very strong track records of investment security. I am not sure if an ISDS mechanism will be necessary."

Nikhil Datta, Centre for Economic Performance, London School of Economics

"ISDS has been used between the US and Canada within NAFTA to prevent Canada from being able to regulate the development of its tar sands. The restrictive impact on countries' regulations have left people concerned about demands from the US for a more 'flexible' labour market, and an ISDS which might make labour regulations open to challenge."

Data Privacy

Concerns about changes to the UK's data privacy policy, which risk the UK not being deemed to have 'equivalent' standards to GDPR, have given rise to concerns about the protection of sensitive personal information. Many take the view that the regime built around GDPR helps to maintain security, confidence and trust in the systems for data collection, linkage and their use in many contexts, particularly health, where highly sensitive information is stored. Any move away from GDPR may start to undermine confidence in data handling.

Oliver Patel, University College London

"The EU has a third-country relationship with the US in which it has granted it partial adequacy around data. This is covered by Privacy Shield which only covers some companies, rather than the whole US economy. The UK has agreed to carry over a version of privacy shield in its relationship with the US, but this could jeopardise the EU adequacy decision as the US will never be deemed fully adequate. In addition, there are big questions over the future of EU policy development around AI and its likelihood of granting data adequacy decisions to third countries; there is a risk that if the EU raises its standards and the UK doesn't follow suit, perhaps because it is bound to US requirements; then the adequacy decision will not be reviewed."

[112] US-UK Trade and Investment Working Group, *Working Group 4 Statement*, 13 July 2018

Matthew Honeyman, King's Fund

"A strong data protection framework is a key part of making sure the health system is trustworthy in terms of use of data. Changes to that framework will incur various costs by introducing uncertainty and, once new regulations are settled, time preparing and implementing new guidance and new operating practices. This will mean projects to improve the use of data within the health and care system to do things like coordinate care might suffer, and there will another set of consequences for secondary uses like planning, commissioning and research and development. "

Jonathan Clarke, Imperial College London

"NHS data is a big resource which is undervalued by its custodians, there is a risk it gets traded on the cheap"

Government Procurement

Another issue relates to US asks around government procurement, with the US calling for minimal exceptions from its demands for liberalised access for procurement.

Rosa Crawford, Trades Union Congress

"The US is likely to want to take a 'negative list' approach to services procurement - so that all services that aren't named are included by default. The UK will need to negotiate to exempt and protect public services by taking the 'positive list' approach to service listing."

New issues have emerged in recent years including the ongoing row over Huawei, tensions over the UK's new digital service tax and shifting attitudes from Covid-19

The US published its negotiation objectives for a trade agreement with the UK in early 2019. The document demands multiple concessions, offers little in return and departs from the traditional quid pro quo model of negotiations to put 'America First'.[113] In recent FTAs struck by the Trump administration, we have seen examples of one-sided asks that are likely to make their way into a UK - US negotiation. These include US investor rights and procurement principles, 'science-based' approaches to regulation clearly aimed at changing SPS standards, lower tariffs on cars and agricultural products, and domestic suppliers being explicitly favoured over foreign suppliers."[114] Two areas which our interviewees suggested may cause particular problems are the demands around a Digital Tax, and restrictions on trade with China, particularly regarding technology.

Digital Services Tax

In the most recent budget, the chancellor introduced a new digital services tax. The tax impacts US firms such as Google and Facebook, and is likely to prove a sticking point in international negotiations. The US administration's fierce retaliatory actions taken against French digital taxation laws demonstrates the importance of this provision within the US's negotiating mandate.

John Wakeman, Software Industry Business Executive

"If the UK decided to impose a Digital Tax it would definitely be a bad thing for the US, as more large US companies are making money in the UK than the other way around."

5G and Huawei

The ongoing controversies surrounding Huawei are creating tensions for the special relationship. Following the UK's decision to allow Huawei to develop its 5G networks, Trump accused Boris Johnson of 'betrayal'. Failure to resolve this issue, and Trump's frustration at the UK's refusal to cave to US demands to exclude Huawei from its networks, could become an insurmountable blocker to a deal, although a shift in UK thinking on China is evident in the Covid-19 debates.

Dan Ikenson, Cato Institute

"The biggest area in which there is bipartisan agreement in Congress is around security, particularly cybersecurity. Huawei is seen in Congress as a National Security threat (less so in the administration). There is hand-wringing about allowing Huawei into the periphery of 5G networks in the UK. Trump doesn't really care, and is happy to negotiate on this, but Congress is going to be upset. Hawkish members of Congress will complicate any trade negotiations going forward."

A Senior UK Government Official

It's striking how strong the rhetoric around Huawei and 5G still is, as critical as you can be between friends. Working out how to deal with that issue is the biggest obstacle to doing a deal."

The UK negotiation priorities include a clause which gives any party to the deal the right to terminate the agreement if the other party signs an FTA with a "non-market economy".[115] This is a provision which also appears in USMCA as Article 32.10, which provides the option of locking out non-market economies. [116] This would significantly constrain the UK's ability to formulate its own China policy.

A Senior USTR Advisor

"There is a provision in the USMCA designed to make things more complicated in terms of Canada / Mexico doing a pure FTA with China, this is because when you do an FTA with the US you're getting really special and unique access to our market, which we have only granted with a limited number of countries, and most of those are really small. It's a very big deal for the US to grant a FTA, we want to make sure we grant it to you rather than indirectly granting it to China, I have no doubt that there will be talk about whether China will be using the UK as a backdoor to get into the US market."

Professor Robert Lawrence, Harvard University

"Technological rivalry between the US and China is leading to a battle over things like Huawei. The US used the renegotiated USMCA to get the parties to agree that if they enter into negotiations with China the other party could withdraw from the agreement. Other issues including changes in export control measures – for example if America say "if American technology has been used to make a product in the United Kingdom, it cannot be sold in China" the UK would want to tread warily around this".

A Senior UK Government Official:

"The US is going to put huge pressure on the China-Huawei problem. But in some ways coronavirus has made that easier as it has driven the UK further away from China already and made it slightly easier for the UK government to agree a slightly tougher stance on China."

Any deal which constrains sovereignty will be perceived as contrary to UK ambitions. Therefore, any political deal, or 'mini-deal' must necessarily have a very limited scope.

Many of the US negotiating asks will require the UK to hew more closely to the US line on certain issues. This presents a significant challenge to the 'restore control' narrative that has been a crucial part of the government's messaging.

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[115] Serhan, Y., The Atlantic, *London's Falling, and a US Trade Deal Won't Save It*, 9 August 2019

[116] Office of the United States Trade Representative, *US-Mexico-Canada Agreement,* October 2018

This may not completely preclude any agreement being struck between the parties, but makes a full-scale agreement concluded before the summer look extremely unachievable, this is one of the reasons the scope of any deal is likely going to be smaller than promised.

A UK Senior Whitehall Official

"The risks of the UK losing its newly restored sovereignty will create a reluctance and inability to align with the US."

A UK Foreign Office Official

"The strategy is not to leave the EU and find out that the US is setting the agenda and the UK is bound to the US because of a trade deal."

A Senior UK Government Official

"I would be surprised if we got anything beyond a political heads of terms with the US; not least because at the moment, it's unclear to the US and any third country what the UK's relationship with the EU will be, which causes a lot of problems if you want to have the UK as an access point for the EU."

In conclusion, our fourth finding is that negotiations between the US and UK are going to be tough, with the US conceding little and making demands that the UK will find hard to meet:

- **The demands raised in the US negotiating objectives are likely to present roadblocks to a substantive trade deal and there seems little US appetite for progress on UK asks – e.g. financial services**
- **In 2018 we highlighted the following controversial areas where the US wants progress: tariffs and differing regulatory standards on agricultural produce; NHS pricing of pharmaceuticals; and ability of US companies to tender for public procurement**
- **Since then new US demands have emerged, highlighted in the USTR negotiating objectives for a UK-US FTA: Digital taxation, SPS standards, Geographic Indicators, and UK-China trade**
- **The decision to allow Huawei into UK 5G networks also continues to raise concerns among the US security community that could jeopardize trade talks**

Finding 4: UK business have consistently argued that a substantive UK-EU deal is the priority; a UK-US FTA risks preempting the relationship with the UK's main trading partner.

In our previous paper we said that striking a deal with the EU first had to be the top priority. For many we spoke to for this paper, this remains true

The UK's trading partners are not random: geography, history and culture all play an important role in determining how countries trade.[117] Across a wide range of areas, stakeholders have been keen to stress to the government the importance of EU trade and the damage to the UK economy that the failure to conclude a deal could inflict. UK trade is highly dependent on EU supply chains; and for many industries significant cost increases will flow from new tariffs, delays at the border, and increased human capital costs.

This is especially true for certain goods sectors, such as agriculture and chemicals, and in areas where the UK is highly dependent on EU imports: around 30% of all food consumed in the UK is imported from the EU.[118] The UK's services sector, the 'jewel in the crown' of UK exports, benefit significantly from shared regulatory frameworks. Although the Bank of England and UK government are pushing for the UK to regain the freedom to regulate, as a global finance hub and conduit to Europe, equivalence is important.[119] The significance of the UK's relationship with the EU extends beyond the realm of commerce; civil society groups with interests in areas such as labour rights and the environment are advocating for maintaining a close relationship with the bloc.

Professor John Van Reenen, Massachusetts Institute of Technology

"Countries usually choose to align with countries which are closer to them geographically. Academia says that trading less with your closer geographical partners means you'll be trading less overall."

Lourdes Catrain, Hogan Lovells

"More than half of UK trade is with the EU. That's phenomenal, and one can only suspect that the future UK-EU trade relationship is going to be very deep, despite the rhetoric. When you start building trade policy, you start with sisters and brothers and only then do you look at your cousins."

Dan Ikenson, Cato Institute

"The EU is so important to the UK — all UK businesses are calibrated to the EU regulatory regime."

William Bain, British Retail Consortium

"It is not as easy to replicate the effects of EU-UK supply chains on many products by seeking to transplant them from elsewhere, such as from the US. This is the reality the retail industry knows very well. There is particular sensitivity around perishables, like salad produce, other fruits and vegetables including the year-round supply of items like broccoli, strawberries and grapes."

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[117] London School of Economics, *Can Brexit defy gravity? It is still much cheaper to trade with neighbouring countries*, 9 November 2019

[118] The Guardian, *How a no-deal Brexit threatens your weekly food shop*, 13 August 2019

[119] Bank of England, *The ideal post-EU regulatory framework*, 10 March 2020

Nikhil Datta, Centre for Economic Performance, London School of Economics

"Leaving the world's largest trading block in the midst of the largest recession we're likely to see in our lifetime is concerning. It has echoes of Smoot-Hawley- the post WW1 protectionist policies introduced by the US. Economists rarely agree on topics, however there is generally a consensus that the passing of Smoot-Hawley exacerbated the Great Depression.[120] I fear Brexit would do the same in our setting."

But the government is now openly challenging the view of the importance of the EU deal, refusing to concede sovereignty for market access. UK politicians and some British govt officials are now claiming that both deals can be run in parallel.

Since the December 2019 election we have seen the UK adopt a new approach. Some experts and government officials believe that a concurrent deal would be possible, and even beneficial for the UK. At a minimum, the opening of talks with the US means that negotiations will be taking place in parallel.

The Conservative party manifesto explicitly stated that deals with the US, Australia, Japan and New Zealand would be negotiated alongside the EU FTA. In a speech setting out his vision for the UK, Boris Johnson has talked up the possibility for a deal with Washington[121] and has stressed that the UK will not be hamstrung by EU negotiations in its pursuit of trade elsewhere. The publication of the UK's approach to third-country negotiations is part of this strategy.

Their desire not to be a rule-taker has led the UK to express a wish to avoid strict alignment with the EU. A closer deal with the US is presented as an upside to this approach.

A UK Senior Whitehall Official

"The political imperative is that we are not going to align with the EU - we are not going to become rule-takers across the board."

A UK Foreign Office Official

"Since the Theresa May era we have seen a shift to the UK government seeming to favour a UK-EU minimal FTA, barely above WTO terms. I don't think the UK has any intention of dropping environmental or workers' standards; but at the same time as we're not automatically dynamically aligning with the EU. One is a promise domestically, the other is a promise about foreign policy."

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"If we are negotiating with the EU and say to our other partners "we can't negotiate with you until we've figured out our deal with the EU", then those other countries will take a backseat and we will get a worse outcome as a result."

[120] See Whaples, R, *Where is There Consensus Among American Economic Historians? The Results of a Survey on Forty Propositions*, The Journal of Economic History, Vol. 55, No. 1 March 1995

[121] The Guardian, *Boris Johnson's speech and Q&A – Summary*, 3 February 2020

Ignacio Garcia Berrero, EU fellow at Oxford, previously chief TTIP negotiator

"I don't think Covid-19 will determine the outcome of the UK-EU deal, but the issues that need to be resolved remain difficult. Everyone, everywhere is managing the consequences of the pandemic; fundamentally the question is - is it possible to find a way forward on fisheries, or on the level playing field when you don't have personal interaction? The loss of personal interaction matters. You need conversations which are 1:1, where you have full deniability, and you can't do the same in zoom because of the risk of recording. There are certain things you need to do in confidence."

A Senior UK Trade Official

"All the motivation for a deal is coming from the EU side. They would quite like the UK to extend; it helps them to get more money. The transition was set up in a very one-sided way. Chances for a deal this autumn are good - although it is unlikely to be very sophisticated."

A Senior Whitehall Official

"We deliberately secured the ability to negotiate FTAs in parallel during the transition period, we were told that other countries wouldn't be interested, but that was wrong as shown by other countries' behaviour, they have chosen to come to the table".

But this ignores the fact that the EU deal is more economically and politically important and should be prioritised. Therefore, these statements could be a negotiating tactic.

Despite UK politicians and some British government officials now claiming that both deals can be run in parallel, this misses the fundamental risk of putting the EU deal into rocky territory, and ignores the capacity constraints around trade deals. This could create a significant problem, as our previous research on the impact of Brexit for British Business made it clear that business regards close alignment with the EU as vital for the interests of many sectors.[122] Of course, these pronouncements could be a negotiating strategy for the UK and some experts and UK government officials are clear that the UK-EU deal will take priority. It is possible that the UK is signalling to the EU that regulatory alignment is not inevitable, while not ruling out substantial alignment in practice.

A Senior UK Whitehall Official

"Politics means the UK government now needs to prove that Brexit was good - or at least fine. But it's much harder to prove this via a US trade deal. Our relationship with the EU means that a 1% improvement in the terms of the deal will have a real positive economic impact which is much more impactful than a 1% improvement with the US."

A Senior UK Trade Official

"There could be some kind of UK-US political declaration but there's no chance of a significant ratified FTA in the next 12 months. The EU deal comes first."

Anand Menon, King's College London

"By their actions the priority is the EU deal; though by their words they are saying they can do both in parallel"

[122] Sands P., Balls E., Sethi M., Hallam E., Leape S., Weinberg N, M-RCBG Associate Working Paper No. 89, *On the Rebound: Prospects for a UK-US Free Trade Agreement*, 2018

A threat of a deal with the US seems unlikely to help the UK extract concessions from the EU

The strategy of using a deal with the US to exert pressure over the EU may not work. UK and US government officials thought the willingness for the UK to strike a deal with the US might help the UK to extract concessions from the EU; but other interviewees doubted that these negotiation threats would be seen as credible.

A Senior USTR advisor

"*Maybe the only way to get the EU to take the UK seriously is for the UK to sign a "Phase 1" preliminary deal with the US.*"

Meredith Crowley, University of Cambridge

"*If there's a deal with the US that has no commitment, the EU might understand that the UK has scored an important political win and be more willing to concede*"

Soumaya Keynes, The Economist

"Both the UK and the US are using the other as leverage for the EU. The US is using the UK as a gateway into the EU, by getting the UK to change things such as SPS. The UK is using the US to try and make the EU more anxious. Of those two, the UK's attempts are less credible, simply because the EU is so much more important to the UK than the US."

William Bain, British Retail Consortium

"We understand that they're going to try and do both in parallel, to that extent there will be some pinch points."

There are risks associated with negotiating both deals in parallel

There are now seven months remaining on the clock for the UK to agree to an FTA with the EU and avoid a 'no deal' scenario, and much of that time is being used up by the Covid-19 response. When we released our 2018 paper, prior to the UK's departure, the general consensus was that the UK would conclude both the terms of withdrawal, and the terms of the future relationship before considering a UK US deal, owing to the volume of trade between the UK and the EU.

Negotiating several deals in parallel, as the UK is now doing, is not a risk-free endeavour. If the UK looks to offer concessions to other countries that are unacceptable to the EU this could contaminate the EU FTA negotiations, increasing the risk of 'no deal' at the end of the transition period. Nor will the US necessarily agree to a deal before it understands the terms of the UK's future relationship with the EU. The UK business community remains concerned about this prospect, fearing the impact of tariffs, border frictions, and impact on supply chains of adhering to multiple regulatory regimes.

Now that the UK has left the EU, it has the freedom to diverge from EU regulations. The question of how far the UK will go has become central to the public debate, now dominated by the question of whether the UK will take seriously the EU's demands for a 'level playing field' on environmental and social standards.[123] The UK rejects a position of alignment on the basis that diverging from the EU's rule book is the entire point of Brexit.

A deal with the US brings this situation to a head, as many of the US negotiating asks will require UK deviation from EU standards. This could, in turn, then force the UK into a choice between the EU and US regimes. This choice is dangerously premature for a UK government that has yet to firm up its own defensive and offensive interests.

[123] Eckhout, P., *Brexit: can regulatory autonomy and level playing field be reconciled?*, February 2020

In many sectors and between many countries, non-tariff barriers pose a greater restriction to trade than tariffs. This is particularly true between the UK and US, where tariffs are already extremely low.[124] There are also advance indicators that the UK will set its global tariff rates at a low level.[125] Thus, as set out in the previous chapter looking at specific issues such as agriculture and digitax rules, the real meat of the negotiations between the UK and the US is going to be around standards and regulatory alignment.

The importance of removing non-tariff barriers is reflected in the emphasis in the US Specific Negotiating Objectives on the UK aligning with US standards.[126] This has now become possible; the UK government has been implying that it is willing to seek divergence from EU standards, claiming an "equivalence of outcomes" approach.[127] For the US, reducing the barriers to trade with one of the EU's largest economies, by reducing non-tariff barriers, represents a significant opportunity from Brexit.

A Senior USTR Adviser

"If you're just going to live under EU rules, you don't have a lot to trade with us. If you give the Europeans a level playing field – the UK will still be in the union from the US perspective. Americans are going to say - are you ready to do a deal with us where we have real access to your market? If you give Americans a chance, then we can have negotiations with the US almost finished by next year.

The Americans aren't going to force you to make a choice on regulations. It's the Europeans who are going to force you to make a choice."

David Henig, UK Trade Policy Project

There are countries like Australia, Japan, Korea and Canada that are all not as big as the US and not as big as the EU. Yet they have very successful economies, and high standards of living. The UK needs to find our own path, between the large economy on the doorstep, and our transatlantic relations. This needs to be an intelligent path in terms of domestic regulation, trade deals and market openness. there will be difficulties in finding such a path, given there are many who want to see us sign up fully to the US or EU way of doing things."

There are tensions between the EU and US models. How closely the UK hews to one regime will affect the ability to trade with the other.

There is a clear conflict between the US and EU regulatory models in key areas. The UK may be able to broker something with the EU that allows it to avoid being a rule taker. However, signing a substantive deal with the US will almost certainly imperil this newfound independence.

There is a tension at the heart of the UK's aims to strike both a deal with the EU and the US. The EU's approach to regulation is based on harmonisation, where certain areas of regulation within the Single Market, such as food standards, or chemicals regulation, are governed by a single set of common European rules. The US' approach is that of mutual recognition, in which two different legal requirements for regulation can both be recognized.

[124] Blenkinsop, P., Reuters, *Factbox: How free would a UK-U.S. trade agreement be?* 4 June 2019

[125] The Department for International Trade, NAO, *Preparing for trade negotiations*, 17 May 2019

[126] Plouffe, M., The Conversation, *Brexit Britain's weakness exposed in US trade deal documents*, 12 March 2019

[127] O'Carrol, L., The Guardian, *Brexit: UK negotiating objectives for trade with EU, in a nutshell*, February 27 2020

The EU has set out in its negotiating mandate that for the governance of SPS provisions the agreement between the UK and EU should include harmonised regulations. Any agreement between the UK and US that affords harmonisation or mutual recognition of the US's SPS provisions risks undermining the EU deal by increasing EU concerns about the risk of non-compliant goods entering its territory.[128]

Mike Cherry, Federation of Small Businesses

"The higher the level of regulatory alignment the UK agrees with the EU, the less freedom exists for negotiating with the US. A thin barebones FTA essentially covering tariffs but making very limited inroads on non-tariff barriers will allow more discretion/ freedom for a trade deal with the US."

Marianne Rowden, American Association of Exporters and Importers

"If the UK moves away from the SPS standards, it would be a boldest move by Boris Johnson — a "true declaration of independence". But if he agrees to a deal around food standards, he will get a deal with a country of 330 million people at the risk of alienating a trade deal with 500 million people?"

Thomas Sampson, London School of Economics

"Agriculture is a particularly important area - the EU will insist that if US agricultural goods will enter the UK market; there will need to be additional border checks, which will introduce trade frictions into the UK-EU relationship."

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"The deals between the US and EU are linked - if we move towards a high level of regulatory alignment with the EU then it will be harder to do a deal with the US. Not a choice between the EU system or the US system — the choice is between a regulatory recognition/ equivalence or EU-style "harmonisation" which is the way the single market works. For example, Australia and New Zealand have a close relationship based on recognition, but the EU model is harmonization because it wants to export its regulatory system abroad. Other countries will want to do deals with the UK to bring them into the regulatory recognition camp."

The UK striking a deal with the US threatens to undercut EU standards

The EU has responded sceptically to the UK's demands for divergence. In particular, there are concerns that the UK is seeking to become competitive by moving to a low-tax, low-regulation model on the EU's doorstep; an approach often referred to as the 'Singapore' model.

Specific concerns coming from the EU include any moves towards less stringent financial services laws, relaxation of labour laws, and softer data protection regulations. The EU is wary that the UK will do a 'bonfire of the regulations' and become a low-regulation zone just outside its borders. Senior staff at the Bank of England have also spoken out against reducing regulation in order to increase the competitiveness of the UK.[129] Some of these moves would bring the UK into closer alignment with the US, and run the risk of a "negative spiral of aggressive British deregulation and forceful EU tightening".[130]

[128] Financial Times, *Warning of threat to UK-EU trade deal from US food demands*, 7 October 2019

[129] Smith, E., CNBC, *Bank of England deputy governor warns against curbing financial regulations post-Brexit*, 30 April 2019

[130] Pisani-Ferry, J., *The UK and the EU Should Prevent Mutual Assured Damage*, December 2019

Many of our interviewees noted that it is, as yet, unclear how the EU will respond to US companies selling into UK markets in ways that the EU would not allow.

A Senior USTR Adviser

"The Americans aren't going to force you to make a choice on regulations, The Europeans are going to force you to make a choice. We're not looking to form a global government. We want a trading relationship"

Marianne Rowden, American Association of Exporters and Importers

"If I were the UK, I would be thinking: "could I become the Singapore of the North Atlantic as a centre of trade?" The UK is heading in the right direction by considering foreign trade zones. Trump is not going to put up with the UK "clinging to the EU standards". Trump will force the UK to choose — are you going to be flexible, or do you really want to try to have your cake and to eat it, too?"

A Senior UK Finance Official

"If the UK allows US companies to sell into the UK market in a way that the EU would not allow, will the EU say that's a problem? It shouldn't make any difference because there would be no cross-border trade into the EU, but who knows?"

A Senior UK Government Official

"The EU is wanting to try and bind the UK's hand. The EU are gunning for something that is close to regulatory alignment, when the UK wants regulatory autonomy."

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"EU Trade Commissioner Paul Hogan says 'not going to put agriculture on the table' in a deal with the UK – but no US trade deal with the UK will go through without agriculture on the table. TTIP also had this issue, as the US is completely opposed to the way the EU regulates."

Complicating things for some in the US, the UK's divergence from EU standards might actually make the UK a less attractive trading partner.

Senior State Department Official

"Some US business sectors use the UK as a base from which to jump into the EU - so divergence is not so welcome. In other cases, divergence will make business easier."

A Senior USTR Advisor

"Trump doesn't see trade as a chance to help multinationals branch into Europe. He's focused on jobs at home in the US - what can our people provide. He doesn't care about factories in Lancashire that can serve the rest of Europe. Arguments about a gateway into Europe won't work for this president."

Additionally, rules of origin are also likely to emerge as an issue due to US concerns that the UK could become a conduit for repackaged EU goods and vice-versa. Rules of origin are used to restrict the application of preferential tariff rates solely to goods which are either totally or majority sourced from one of the countries in the agreement. However, determining the source of a product when supply chains cross borders can be very complex. Over time, the economic integration of the EU has allowed for highly complex supply chains which cross multiple jurisdictions. UK exports often include intermediate goods imported from the EU.

The importance of foreign value added in UK exports is low compared to other EU countries, with the EU accounting for 9.3% of UK firms' intermediate inputs in 2014.[131] For some sectors this is still significant however, such as 16.3% of EU intermediate outputs for UK manufacturing.[132]

Rules of origin can significantly affect the extent to which UK firms could benefit from a US-UK FTA. Firstly, it narrows the amount of UK exports eligible for preferential tariffs or treatment, absent a change in supply chain. For example, the USMCA negotiations resulted in 75% of the content for motor vehicles to be North American, up from 60-62.5%. It also introduced a wage requirement for some of the content. Requirements this strict could undermine benefits to UK auto manufacturers, where recent estimates put the proportion of UK content for UK cars exports at 20-25%.[133] Secondly, rules of origin can introduce significant administrative and compliance costs. Estimates vary but can be around 2-6% of a product's final value.[134] Multiple different FTAs applying different rules of origin requirements can create additional complexity.[135]

Marianne Rowden, American Association of Exporters and Importers

"Rules of origin could well be a sticking point between the US and the UK. How do you stop the UK from just being a waystation for EU inputs that are just repacked in the UK and sent to the United States?"

Many are starting to think that the US will wait until it knows the status of the UK's relationship with the EU and the UK's WTO MFN tariff schedules before it concludes any substantive deal with the UK. This information is crucial to the American negotiating team's understanding of the levels of tariff and non-tariff concessions from the UK, and it will guide the US team in quantifying the impact of UK domestic priorities on its approach to trade. Countries such as Canada and Korea will be watching the UK's WTO MFN schedules closely to see whether there might be an opportunity to improve on their terms of trade by re-negotiating the FTA with a UK outside of the heft of the EU.

A Senior Whitehall Official

"Our MFN tariff schedule is as - or more - important to the future of UK trade than the US deal."

Hewing too closely to the US line imposes a strategy-by-default.

For the first time since the UK joined the EU it will have an independent trade policy. Trade may be presented as a narrow economic issue, but in reality, the choice of trade partner will have major downstream impacts on the UK's geostrategic and political future. There is a risk that if the UK ventures too far down the US path, and concludes a deal in the US interest, that this will inadvertently put the UK at odds with the EU and limit the UK's flexibility in future trade deals.

A Senior UK Finance Official

"There is an extent to which the US wants to use the opportunity of Covid-19 to cut China off from the global economy, to onshore manufacturing and reprioritise around security. The US wants the UK to be part of their vision of the world, and there is a temptation to bind us into this future."

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[131] Ijtsma, P., Levell, P., Los, B., Timmer, M., Fiscal Studies, *The UK's Participation in Global Value Chains and Its Implications for Post-Brexit Trade Policy*, December 18 2018

[132] Ibid.

[133] Stojanovic, A., Institute for Government, *Trade: rules of origin*, 29 June 2019

[134] Lowe, S., Encompass Europe, *Brexit, rules of origin and barriers to trade*, April 2018

[135] Levell, P., Institute for Fiscal Studies, *Firms' supply chains form an important part of UK-EU trade: what does this mean for future trade policy?*, 8 January 2018

David Wright, Former Senior EU Commission Official

"The Americans like to play the power game. Like any set of regulators, they hate changing their laws and are very inflexible."

The UK needs to start by firming up its own offensive and defensive issues on trade. It is not clear this work has been done yet.

Although the UK has launched and closed consultations on several proposed FTAs, it is yet to publicly articulate any offensive or defensive interests regarding non-EU trade. The UK also needs to roll over the existing preferential arrangements it has access to through the EU but which fall away at the end of the transition period. The UK should, as it irons out its post-Brexit, post-Covid future be cautious about tying its hands too early on future issues. Without properly doing its homework, there is a risk post-Brexit Britain's rush to get a US deal leads to a misstep, particularly now that Covid-19 has transformed global trade. Examples of areas where the UK is being pressured to align with a particular American worldview include trade with China, algorithmic transparency and digital taxation.

Sarah Mukherjee, Crop Protection Association

"We've been in a holding pattern - we didn't even know whether or how we were going to leave the EU. I've never known so many senior civil servants say: "I don't know" about what is going to happen with UK-EU trade."

US State Department Official

"How the UK will conduct its negotiations with the EU is also important to the US — it will be difficult, it's not controversial to say that. The UK hasn't even published its negotiating objectives so it's hard to say what's realistic"[136]

Professor John Van Reenen, Massachusetts Institute of Technology

"US not going to align with the UK on its standards so it is the UK that will be the one that would have to compromise. In healthcare, US pharmaceutical companies want more price power and better access and it will be UK that will be the one compromising"

[136] This quote reflects an interview which occurred before March 2 2020

In conclusion, our fourth finding is that the clear view of UK business remains that a substantive UK-EU deal is the priority; a UK-US FTA risks preempting the relationship with the UK's main trading partner.

- **The consensus when we wrote our 2018 paper was that the UK must first direct all resources and capacity at the negotiation with the EU. But the UK government is now negotiating both deals in parallel.**
- **There is business concern that government is not using the pandemic to get an early deal that minimizes disruption and border friction.**
- **The UK and EU remain far apart on key issues needed to conclude a deal: regulatory level playing field, role of the ECJ and fisheries.**
- **As we found in our 2018 paper, negotiating an UK-US FTA will potentially force the UK to choose between regulatory alignment with the US or EU**
- **Any substantial agreement with the US that pre-empts an EU deal conveys to the EU that the UK is moving towards a US regulatory model and worldview.**

Finding 5: The Covid-19 pandemic reinforces the UK's strong national interest in using its 'Global Britain' agenda to strengthen multilateral economic and health cooperation.

Even before the Covid-19 crisis the UK had an interest, post-Brexit in pursuing multilateral cooperation. The UK now has its first chance in nearly half-a-century' to forge a path independent of the EU, and there are a wealth of channels through which it can pursue this agenda. The Foreign Affairs Committee's inquiry into the prospects for Global Britain identified that the UK has an important role to play in supporting "the rules-based international system; for free markets; our values and the rule of law".[137]

The UK has a deep history as a leader of UK of international collaboration, and a major global trading centre. An internationalist approach could see Britain taking advantage of new trading opportunities, for example with fast growing economies in Asia, Africa and the Americas: World Bank data shows European average annual growth rates of 1.6% between 2000 and 2017 against comparable growth rates in South Asia of 7%, and Sub-Saharan Africa of 5.4%.[138]

Although not as influential as in the last century, for historic reasons the UK benefits from a structurally powerful role in many international organisations, and holds outsize influence in areas such as intelligence and financial services. Keeping Britain as a major hub for international trade requires the UK to harness the strategic advantage this position provides engage strongly with international efforts to combat globally important issues, from climate change to the impact of rising technologies. Efforts should be focused on areas like recovery from Covid-19, international standard-setting processes, international efforts to devise new regulations that are adaptive to the needs of a changing global economy, and international efforts to promote the opening of international markets.[139] These efforts should be focused on areas where the UK has specific expertise.

UK Think Tank Trade Expert

"The UK has identified that the 20th century is going to be less European and more focused on the Pacific. The logic of Brexit points to a closer US relationship, and a trade deal would be an economic and geopolitical boost to Global Britain. Asia is more important in terms of global demand for imports not just in manufactured goods- which isn't the UK's natural strength- but in services - which the UK is good at."

Paul Tucker, Chair of the Systemic Risk Council

"Where does the UK punch above its weight on the international arena? Finance and intelligence."

The prospect of UK-US deal created tension for this vision of outward looking Britain, even before Covid-19. The US emphasis on bilateralism and faltering commitment to the WTO and other international institutions contrasted with a Britain keen to increase trade flows, and develop new international partnerships. Moreover, the ability to pursue this internationalist vision while moving away from the EU is made more complex by an EU keen to demonstrate to its Member States that 'going it alone' doesn't work.

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[137] Foreign Affairs Select Committee, *Appendix: Memorandum from the Foreign and Commonwealth Office*, March 2018

[138] London School of Economics, *"Long Read: Can Brexit Defy Gravity? It Is Still Much Cheaper to Trade with Neighbouring Countries."* 19 October 2018

[139] Sam Woods, *Stylish Regulation*, 16 May 2019

Now, with the pandemic, globalisation seems set to go into retreat - Covid-19 has made it harder to trade goods, harder to cross borders, harder to convince people of the merits of trade. Paradoxically Covid-19 also increases the importance of global cooperation and finding solutions to the enormous challenges to public health, movement, trade, equity and development. The pandemic therefore highlights the need for a global approach to foreign and trade policy by underscoring the importance of functioning supply chains, cross-border scientific and pharmaceutical collaboration and managing the seismic political and economic changes that lie ahead. The UK is currently aiming to achieve this form of multilateral action through the G7 and G20.

A Senior UK Financial Official

"There is a need for more multilateral cooperation, from supply chains through vaccines; the need has increased markedly, at a time when we expect there to be less integration rather than more. Is a bilateral negotiation taking us away from what we ought to be doing, or is this a way to hook the US back into a series of multilateral discussions?"

A Senior UK Whitehall Official

"A 'mini-deal' could emphasise the UK-US bilateral relationship, or it could offer an opportunity for the UK to pull the US towards a more internationalist position."

Leading the global response to Covid-19 and post crisis recovery

The present crisis is the worst economic downturn since the great depression; and governments around the world have already deployed extraordinary measures to combat the massive risk to human lives. But many have expressed dismay at what they consider as poor, short-sighted efforts at global governance to respond to the crisis,[140] although there has been some progress. The magnitude of economic damage means that significant further efforts will be needed to promote international cooperation for a green, sustainable, recovery.[141]

Britain has the opportunity to lead in this recovery, ensuring that vulnerable countries receive the support they need to fight the pandemic, alongside ensuring that the recovery elsewhere is coordinated and staged to fight the other great existential risk of our time: climate change. The UK has a unique opportunity to do this through its upcoming G7 presidency; supporting U.N Secretary-General António Guterres' push for green national stimulus packages.[142]

A Senior UK Government Official

"There is a whole lot of cooperation that is needed. The international system really doesn't link health and economic resilience together, and the UK needs to help lead here. There are also the technical standards which is the real meat for the G7: the role of vaccines and science, R&D and manufacturing standards."

A Senior UK Trade Official

"The G7 and G20 multilateral routes are being used a lot at the moment, and there is good scope for us there. There is a lot of respect for the role we can play, plus we have the upcoming presidency. The EU has been slower on the international response because the internal EU issues are so all consuming, it will not begrudge the UK its role in international institutions."

As we set out in previous chapters, the bilateral approach has significant drawbacks. The conventional view is that feeding bilateralism at a time when we need multilateralism is a bad idea.

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[140] Guardian, *Leaderless, Lacking and Late: a global plan to fight coronavirus is desperately needed*, 11 April 2020

[141] IMF, *Opening remarks by Kristalia Georgieva*, 29 April 2020

[142] Politico, *Global climate battle shifts to 'once-in-a-generation' government spending*, 30 April 2020

However, if the UK is engaged in long-term negotiations with the US, there is a possibility to utilise the progress made within FTA discussions and use these as a springboard to engage the US multilaterally. This may offer a route to bring Global Britain to life.

A Senior UK Government Official

"Now is a moment where we need global five-point coordination. But there are big questions about the role that the US and the West will play, alongside generic strategic questions in relation to US-China relations. Pursuit of US bilateral negotiations could be seen as a diversion from the G7 and contrary to the need to coordinate efforts around the economy, health, preventing the collapse of global supply chains. Or the UK could build on the Special Relationship Economic Working Group and the other open diplomatic and trade channels with the US to try to triangulate efforts."

A Senior UK Trade Official

"There is an opportunity for us to encourage a more internationalist approach from the US, propping up the multilateral system. How we play the reaction to China matters a lot."

A deepening of global financial regulation

For the UK, reducing NTBs which restrict access to services markets abroad is a key offensive interest. However, the US and EU have often struggled to reach agreement on regulation during bilateral trade negotiations, particularly financial services regulation. Progress in multilateral fora such as the OECD and Basel could help build the groundwork to achieve greater services liberalisation.

The financial services sector, as identified previously, is unquestionably one of the most important sectors for UK exports. Interviewees in the financial services sector identified the burden of having to comply with diverging sets of regulations across countries as a key friction in cross-border activity. Concerns have also been raised that a deal with the US could reduce the financial services sector's gross value added by 0.5%. This reflects a reallocation of resources towards other economic sectors as other parts of the economy expand following the FTA, although this does not capture international activity undertaken through international subsidiaries or branches of UK firms.[143]

International standards for financial regulation, particularly regulation which seeks to promote financial stability, are often set as 'benchmarks' against which countries evaluate the standards imposed by other regimes. The UK has regularly held a leading position in the development of these international standards. Mark Carney, former Bank of England Governor, sat as Chair of the Financial Stability Board from 2011-2018. Vicky Saporta, executive director of the Prudential Policy Directorate at the Bank of England, currently chairs the Executive Committee of the International Association of Insurance Supervisors.

Paul Tucker, Chair of the Systemic Risk Council

"Where are there benchmarks? On banking prudential regulation - Basel is the benchmark, and the UK is more compliant than the EU. On Conduct, IOSCO, there are no standards."

A Senior UK Trade Official

"The UK wants to promote the opening of financial services markets based on the adherence to international rules. We are already a strong player in the discussions that are taking place, for example at the FSB, and we want to continue being a strong player.

[143] City AM, *US UK Trade Deal Set to Devalue UK's Financial Services*, 2 March 2020

Improving the governance of supply chains, including action on the environment through OECD efforts to address tax challenges

There are a range of issues surrounding the management of globalisation where there is much to be gained from the UK playing an 'honest broker' role, for example in discussions on digital taxation, the governance of multinationals, and the regulation of the internet. Many issues of this nature are already worked out in international fora, and having separated from the EU the UK can occupy a new position as a market liberal economy with both strong Anglo-Saxon and European ties. This may allow for mediation between EU and US positions where they are not in alignment.

A Senior UK Government Official

"Leaving the EU means we will have more opportunity to coordinate and cooperate with the US around the development of international standards, and this may well deliver market openings."

A UK Senior Whitehall Official

"Some issues are already worked out in different fora, and the aim should be to influence these as much as possible. Take financial services, or digital taxation; it's not as simple as a US v. EU approach."

The transformative potential of new technologies, in particular the impacts of social media on politics, and artificial intelligence (AI) on a whole range of different areas, means that governments are currently thinking hard about how to regulate these technologies to ensure their responsible use. The UK has already begun its thinking about how to develop a coherent strategic approach to governance and regulation, for example through its new Centre for Data Ethics and Innovation.[144]

This is part of a wider international effort to develop the regulatory frameworks for new technologies. The European Commission, OECD, G7 and G20 are all currently conducting assessments of whether national AI regulation and governance frameworks are fit for purpose.[145] In many cases, for example in the area of online harms, the UK is leading the pack.[146] As governments take key decisions over the next five years about the best approaches towards regulation, including about the degree of intervention, the UK has the opportunity to leverage its size, and progress on the topic to advance the debate. This is particularly true where there are differences to the 'risk-based' approaches endorsed by Washington DC and Brussels, where there is still some bridging to do between the Commission's urging of tough rules, [147] and the White House's light-touch approach.[148]

The UK's unique position as an advanced economy outside the EU single market could grant the opportunity for regulatory innovation. This is clearly the view of David Frost who has set out the "huge advantage [the UK is going to have] over the EU – the ability to set regulations for new sectors, the new ideas, and new conditions – quicker than the EU can, and based on sound science not fear of the future."[149]

This approach could be particularly interesting in areas such as digital services which are adopting new regulatory models.

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[144] Gov.uk, *Centre for Data Ethics and Innovation*, 13 March 2020

[145] OECD, *Artificial Intelligence in Society*, 22 May 2019

[146] Gov.uk, *Online Harms White Paper*, 12 February2020

[147] Politico, *Europe moves forward with tough rules for 'high-risk' AI*, 19 February 2020

[148] Ibid.

[149] The Spectator, *Full text: Top UK Brexit negotiator David Frost on his plans for an EU trade deal*, 17 February 2020

Senior UK Foreign Office Official

"In some areas, such as new sectors, or the regulation of AI the UK's position may enable it to be nimble, try different approaches without having to secure the agreement of all member states, and regulate in a smarter way."

At the international level there is a significant amount of momentum for corporate taxation reform with the aim of securing a global taxation of technology companies. The recent spats between the US and France over France's attempts to implement a digital tax demonstrate the difficulties of establishing an international consensus between the major economies. Yet this is precisely what is needed to avoid a 'race to the bottom'.

The efforts at the OECD level to find an agreement will kick back into action once the outcomes of the US election are known. The complexities around such ambitious reform means that any country able to find a balance between accuracy and simplicity of such a tax will be viewed as extremely helpful. The UK's recent commitment to review its own ambitions on this front would be a step back.[150] The UK has a role to play in brokering US and EU issues, and allies to gain, particularly if it can show its support for Germany and France by being tough with the United States.

A Senior USTR Advisor

"You see the Europeans going after Google, after Apple, after the other American tech companies, it's very worrying to a lot of Americans"

Gary Hufbauer, Peterson Institute for International Economics

"Digital taxation is a difficult issue for the US, and whether it is confronted in a trade agreement, or is agreed by the OECD, this is a big issue that is not going away".

Moshe Gavrielov, Semiconductor and Software Industry Executive

"Digital tax needs to be resolved at a global level, and the US is going to resist the tax to support its most successful big companies. For the UK it is natural to move towards a digitax, but it is difficult to do this standing alone outside Europe, even when it is saying the same thing as European partners."

L. Alan Winters, University of Sussex

"It is very interesting that the UK government is taking a firm line with the US on digitax, which isn't necessarily what we might have expected. One should view this as trying to pressure the American administration into agreeing to a global regime."

A Senior UK Government Official

"Digitax is clearly an area in which the UK wants to go its own way, given UK plans to impose a 2 percent levy on tech companies."

Support for the international rules-based trading system

Finding support for the international rules-based system was a challenge, even before the pandemic, and it is now critical to mount a response on the scale needed to solve the problems created by Covid-19. A UK-US deal could be a signifier of a move towards a more closed bilaterialist world, or an opportunity for the UK to wrench the US back towards cooperation; building out from a bilateral base.

[150] Telegraph, *UK points to climbdown on tech tax ahead of trade talks with US*, 2 March 2020

If the deal means the latter, that would be a positive start, as there is much to be gained from a US committed to global cooperation to promote global recovery.

Ignacio Garcia Berrero, EU fellow at Oxford, previously chief TTIP negotiator

"Knowing the limitations of a pure bilateral agenda, if I were the UK I would invest much more into the WTO. Countries like New Zealand have been very vocal in keeping markets open in the context of the pandemic. There are limits about what the UK can do during the transitional period; but I would be thinking about how to be an active player in promoting WTO reform, and working with mid-sized players. One option is trying to get the US again interested in the plurilateral negotiations on services."

Anand Menon, King's College London

"There is an interesting comparison to be made between 2008 and now. Covid-19 is a wholly different source of crisis, but the UK government is very keen to be seen to be taking a global role and playing things globally."

UK activism to advance multilateral discussion is likely to find support during a time when many are concerned about the destruction of the rules-based international approach. Julian Braithwaite, the UK's Ambassador and Permanent Representative to the United Nations, is already pushing in this direction, using his first appearance at the WTO to assert the UK's aim to support "the global trading system which [the UK was] instrumental in founding, and advancing [the UK's] economic interests"[151]. This approach has already been proved successful by New Zealand which has obtained disproportionate influence in world trade due to the skill of its negotiating team.

A Senior UK Government Official

"You only need to look at Julian Braithwaite's intervention the first time that he took the independent seat at the WTO to know that trade deals are all very well but we should also be robust defenders of the global trading system"

As of 11 December 2019, the WTO Appellate Body lost its quorum of three members necessary to decide appeals of WTO settlement dispute panel decisions.[152] This steady fall in member count is due to the US's continual blocking of judge reappointments.[153] As a rationale it has cited "systemic concerns" regarding the practices of the Appellate Body, such as members whose terms have expired to being allowed continue to serve on appeals to which they were previously appointed.[154] Without an Appellate Body, the framework of the world trading system loses any avenue for retaliation in the event of a breach in international trade law. As a temporary measure, seventeen members of the WTO including the EU have committed to set up a separate appeal court without the US to adjudicate disputes until new judges are appointed to the Appellate Body.[155]

The UK has a strong interest in the multilateral system. First, outside the EU the UK is exposed to potential trade infringements such as unilateral tariffs, dumping and subsidisation of foreign industry. Whereas infringements against the UK previously risked EU-wide retaliation, the UK alone may be seen as less of a threat and may therefore be more vulnerable. Second, the WTO has begun work on a series of new areas of negotiation which are of importance to the UK, such as in digital trade.[156]

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[151] Twitter, @JulianWTO_UN, 1 Feb 2020

[152] Congressional Research Service, *The WTO's Appellate Body Loses Its Quorum: Is This the Beginning of the End for the "Rules-Based Trading System"?*, 16 December 2019

[153] American Journal of International Law, *United States Continues to Block New Appellate Body Members for the World Trade Organization, Risking the Collapse of the Appellate Process* 2019

[154] United States Trade Representative, *Report on the Appellate Body of the World Trade Organisation*, February 2020

[155] Davos, Switzerland, *Statement by Ministers*, 24 January 2020

[156] At Davos 2019, 76 WTO partners announced a launch of talks on e-commerce: *https://trade.ec.europa.eu/doclib/docs/2019/january/tradoc_157643.pdf*

The UK should seek to advocate for reform at the WTO, which will open up the possibility for the US to re-engage with the multilateral trading system. It can use its position to bridge the EU and US as a fellow liberal market economy engaged with the global trading order.

David Wright, Former Senior EU Commission Official

"The US is destroying the WTO and going bilateral because they have the power to do so. The UK doesn't have a multilateral dispute settlement system to protect them – the WTO is now the law of the jungle and there is no way of resolving any disputes until the court can get appointed. So, if the UK lines up with the US, it will be under the cosh with no multilateral fall-back and no EU to turn to for support."

Rosa Crawford, Trades Union Congress

"Entering into a bilateral trade agreement with the US will make it harder to challenge the US through the WTO, even if your industry is being hammered by US action"

William Bain, British Retail Consortium

"If the WTO Appellate Body continues in abeyance this is not in the interests of UK industries. We want to be within a rules-based system that is capable of enforcing globally agreed trade rules and practices."

In any case, an internationalist approach may also be more successful than bilateral negotiations. In bilateral deals, the UK holds a weak position. This is not just because of the relative size of its economy - although the relative importance of the UK economy compared to some of its proposed negotiating partners is certainly a source of weakness. As important is other countries' perceptions of the UK's alternatives to new trade agreements following exit from the EU. The UK's 'Global Britain' platform may be interpreted as motivated by the need to ameliorate the economic impacts of withdrawal, or to score political wins and bolster public morale. This poses a risk both when attempting to forge new trade deals and when renegotiating "rollover" deals which seek to maintain the existing trading relationship existing between the UK and a non-EU country.

Support for the WTO presents an opportunity to improve the relationship with the EU: both parties share an interest in re-engaging the remaining protections of the international system. This is particularly true of the UK, who will soon begin operating without the full force of EU sanctions to use as retaliation in the event of a trade infringement.

A Senior UK Government Official

"It is likely that the deal with the EU will move towards a more orthodox model of dispute settlement, but there is a big risk that the EU will be worried that the process isn't robust enough. They are worried about the destruction of the rules-based international approach, in which we are partners. Cooperation in this area around big geostrategic questions could help to alleviate EU worries about the level playing field that stems from concerns about international dispute settlement mechanisms"

A global approach offers a way for the UK to balance regulatory freedom with integration and multilateral cooperation

The UK needs to find a way, after the Covid-19 crisis and outside the EU, to build the economy and improve its citizens' standard of living.

While Britain would like to take a leadership role in the multilateral framework, the vote for Brexit and demands to restore sovereignty mean Britain needs to find a mechanism for doing this without significantly curtailing its regulatory freedom. One option here is for the UK to find a position at the vanguard of international standard setting, as leading the regulatory process offers the UK a way to be globally integrated without becoming a 'rule taker'.

Meredith Crowley, University of Cambridge

"The idea behind Brexit is that the UK is unhappy with signing a deep trade agreement with a foreign country where there is a core outside of its control that is going to constrain future regulation. A deep trade agreement of any sort, is exactly what they were trying to get out of."

A Senior UK Government Official

"Trying to define 'Global Britain' through foreign policy and participation in international action makes more sense than trying to put meat on the bones through trade deals. But I haven't seen much action yet".

Being outside the EU and the US will give the UK the freedom to creatively develop regulations, but presents challenges for persuading other countries to adopt them. We have identified areas where the UK has the best chance of becoming a sovereign rule-setter. First, areas where the UK has cache as an expert, such as global financial regulation. Second, areas in which the UK can broker between US and EU interests, such as improving the governance of supply chains. Third, in pursuing areas where the UK's interests align closely with a significant number of other countries – such as support for the international rules-based trade system.

Meredith Crowley, University of Cambridge

"When Britain thinks about the future of regulation, maybe it can start to develop the templates and get other countries to adopt. The UK approach offers a bit more freedom around regulation, rather than the cookie cutter perspective. This is a more innovative and dynamic model that the British could try to export that model."

Cathryn Clüver Ashbrook, Harvard Kennedy School

"A multilateral framework is always better for the UK if you can make it work - it's a more fluid negotiating environment. The challenges include the sequencing of 'asks' in the highly complex environment, and issues relating to transparency vis-à-vis a domestic audience who will need to understand the benefits of a trade deal as talks progress. However, the stability the multilateral framework provides is preferable to the economic and political instability created by multiple trade deals."

But while worthwhile, it will take a long time for the UK to find its independent position at the multilateral negotiation table and learn how to exert influence without the heft of the EU. This presents an exciting prospect for the UK, but it will require the UK to play the long game, particularly as the wider geopolitical environment does not offer a good context for anyone to make the case for enhanced multilateralism.

Paul Tucker, Chair of the Systemic Risk Council

"Everybody, including most importantly the UK, is going to find out how well a medium-sized country can do in negotiations with bigger economic powers through the forces of issue-linkages and alliances during a period of geopolitical change. We're going to learn a lot about how the world works. But if the UK does well in the negotiations - this might say more about the world than us, unless British officials can harness geopolitical currents."

However, for this approach to work it must be sensitive to the risks of being seen to tack too closely to America, particularly if the Trump administration is re-elected. Identifying issues to push in which there is consensus between the UK and Europe to promote with America may be one way of avoiding these risks.

A Senior UK Government Official

"It is always a risk for the UK to see itself as a bridge between Europe and the US, because of the mood of Europeans. For example, there are four main global blocs on data. It is the US - market led approach and the European privacy-first approach that are in tension. The Europeans are totally paranoid about what will happen on data."

A Senior UK Official

"If Trump wins again then he will have won on a very isolationist, nationalist platform and the prospects of the UK / G7 stasis will continue. If the US will not play ball, it is very hard to doing anything through the G7."

In conclusion, our fifth finding is that the UK does have other channels through which it can pursue its 'Global Britain' agenda

- **The UK government's 'Global Britain' strategy currently risks being trapped between a US that is no-longer committed to the WTO and an EU keen to punish the UK bilaterally for trying to 'go it alone'**

- **There are other, multilateral ways in which the UK could seek to pursue its economic objectives:**
    - **Leading the global response to Covid-19 and post crisis recovery**
    - **A deepening of global financial regulation and mutual recognition**
    - **Improving the governance of supply chains, including action on the environment through OECD address tax challenges**
    - **Support for the international rules-based trading system**

- **But while worthwhile, this is a long game – now is not a particularly easy time for the UK to start making the case for enhanced multilateralism**

Finding 6: A UK-US 'mini-deal' is still possible this year - but is this a risk or an opportunity?

Covid-19 means that an early substantive trade deal is difficult to do. But a strong political desire to conclude some sort of agreement remains. Consequently, to circumvent potential roadblocks, avoid a clash with the EU agreement, and still deliver a political Trump-Johnson post-lockdown economic initiative before the US elections, it is possible that the UK and US could opt for a high-level political 'mini-deal' - a political declaration executed without Congressional approval, even amid the Covid-19 crisis.

A UK-US 'mini-deal' narrowly focused on the bilateral relationship risks the UK getting caught between the US and the EU for the reasons outlined above, it also places the UK in a difficult position as US- China tensions intensify. Many of those we spoke to instead pointed to Britain's role and position within international institutions as the best way for a post-Brexit Britain to respond to the needs of British firms and the wider economy. Therefore, the UK could try to secure a deal that emphasises the importance of cooperation and multilateral action on the significant health and economic risks relating to Covid-19 and the urgent need for a vaccine.

Even though negotiations have been launched Covid-19 means a UK-US FTA before the US elections seems impossible

The US presidential elections are scheduled to take place on November 3, 2020. Campaigning will be at full throttle by the summer and it is highly unlikely that the White House will have capacity for or interest in striking a full deal with the UK beyond the Republication National Convention in late August. Both the US and UK are consumed with the Covid-19 response which is absorbing almost all of the time and energy at the centre of both governments. That leaves less than four months for concluding a substantive deal, during the worst economic crisis of the century.[157] Even considering the preliminary work done by the Trade and Investment Working Group, trade agreements take a long time, even without the additional burden of managing an international pandemic: the quickest FTA the US ever concluded took 18 months, and that was with a much smaller economy – Jordan.[158]

A conventional FTA negotiated under the Trade Promotion Authority ("TPA") would require numerous notifications to, and consultations with Congress whose approval would ultimately be required. Our interviewees were highly doubtful that this could be completed before the US elections. But an ornamental 'mini-deal' or sectoral 'micro deals' may be possible.[159] These could adopt the form of the 'Phase-1' agreements arrived at with Japan[160] and China[161] which did not require Congressional approval.

A Senior UK Government Official

"It's a complete nightmare for government in process terms. There is a very limited window before the US election to get something done with Trump still in the chair, and all of the focus is elsewhere."

[157] IMF, *World Economic Outlook, April 2020: The Great Lockdown*, April 2020

[158] Hutt, R., World Economic Forum, *With Brexit in mind, just how long do trade deals take to agree?*, 22 July 2016

[159] Wintour, P., Guardian, *US and Britain could sign sector-by-sector trade deals, says Bolton*, 13 August 2019

[160] Congressional Research Service, *U.S.-Japan Trade Agreement Negotiations*, 16 January 2020

[161] Congressional Research Service, *U.S.-China Phase I Deal: Agriculture*, 7 February 2020

Realistically, the possible zone of agreement is small and the benefits are narrow

Findings 3 and 4 emphasise that the easy "wins" for the UK and US to agree in the short term are limited, and may have implications for any concurrent UK-EU negotiations. As a result, it is unlikely that any 'mini-deal' which the UK can arrive at will be substantial in content. A 'mini-deal' could instead include a range of promises around future trade and cooperation which do not require an actual trade deal. This could take the form of a 'Phase 1' type agreement, or simply a political declaration.

A Senior USTR Adviser

"There is no reason why, in the short term, the two countries couldn't agree to a 'phase 1' type agreement. This would allow PM Johnson to go back to the country to say: we are making progress, this is working, we are going to conclude the deal after the election."

Professor Robert Lawrence, Harvard University

"The new way that the US gets agreements is that it goes for what it wants and limits to scope of the deal just to show that it has done something. If an agreement with the US hinders the ability of the UK to e.g. sign an FTA with other countries, for example, China, it doesn't look like such an effective way for the UK to achieve its goals."

EU Commission TTIP Negotiator

"Covid-19 shouldn't make much difference to the prospects for a 'mini-deal' which doesn't require Congressional approval - the administration can still do that. But, is it worth it? Nobody in America is going to be very impressed - Trump isn't going to win Ohio because of a deal with the UK - but it could be done, even with Covid-19."

Aside from enabling both governments to move swiftly to an agreement, a 'mini-deal' that excludes tariffs also avoids the risk that the UK or US would violate WTO obligations, such as the most—favoured nation principle, the requirement that any trading concessions or privileges granted through a trade agreements are offered to all other WTO countries. Article XXIV(5) of GATT allows for FTA between countries, provided they do not worsen the terms of trade for non-participants; but this must be notified to the WTO to give other members the chance to air concerns.

Jeff Schott, Peterson Institute of International Economics

"A 'mini-deal' between the UK and US would be confidence building. It would have to be in areas not covered by WTO obligations, or otherwise it would run afoul of the MFN principle."

Following Japan, the UK may include conditions in a UK-US FTA may include attempts to prevent the US from applying such tariffs.[162] However, even having concluded a trade deal may not be sufficient to avoid unilateral measures. These could prove extremely damaging as Mexico found recently; even as the USMCA moved towards ratification in Congress the US threatened to impose 5% tariffs on Mexican products if it didn't stem the flow of migrants.[163] Without time for recourse to the WTO, Mexico simply had to comply, and has recently reported a 56% decline in the number of migrants attempting border crossings.[164]

[162] Sposato, W., Foreign Policy, *Japan regrets trusting Trump on trade*, 5 December 2019

[163] Lee, Y., CNBC, *Trump may 'end up torpedoing' the new NAFTA after threatening Mexico with a costly tariff*, 31 May 2019

[164] The Guardian, *Mexico reports 56% decline in number of migrants attempting to reach US*, 6 September 2019

Soumaya Keynes, The Economist

"A 'mini-deal' could include the removal of tariff threats, something on SMEs, perhaps regulatory cooperation. It would, by definition, be quite narrow."

Shifting White House priorities and Covid-19 pressures mean American political interest, even in a 'mini-deal', isn't guaranteed

Nor is Trump, or a Democratic President's ongoing interest in a deal guaranteed. The benefits of a deal conducted by executive agreement are also narrower than an FTA in that they could easily be revoked by Trump or overturned by an incoming Democratic administration.

UK Government Official

"There was a bromance going on between Trump and Johnson, but Trump is capable of falling both in and out of love with people all the time. The bellwether issue of Huawei shows how tricky retaining his favour can be."

L. Alan Winters, University of Sussex

"One has to wonder whether an agreement would be worth the paper that it is written on. Think about poor Mexico, which was backed into a corner with the USMCA, then two days later had tariffs imposed due to the administration's goals on immigration."

Nevertheless, A 'mini-deal' could be advantageous if it helps the UK control and recover from Covid-19

Despite the risks, a 'mini-deal' could be an opportunity to bolster the fortunes of both the US and the UK, as well as a chance to influence the US position towards multilateral cooperation. Moving the global economy back on track post-pandemic, important for the UK given the significant role of imports and exports in GDP, requires international co-operation to restore global supply chains,[165] and avoid a "second wave" of the virus. In addition a 'mini-deal' could be advantageous if it helps to create jobs and wealth in the UK, and assists the huge number of people who have been disadvantaged by this crisis.

Senior UK Finance Official

"The political statement could be an opportunity to move the US into a more sensible position. We don't yet know how the dynamics of these talks are going to develop, but the political leadership should be thinking about this strategic dilemma."

A Senior UK Government Official

"There is a way of talking about this as an opportunity. It is worth considering how we can grab hold of this deal as a way of creating new opportunities for the huge numbers who have lost their jobs through Covid-19. The unbelievable absence of the international architecture and collaboration is quite staggering – there is work on vaccines, but the financial recovery will require international action."

[165] Beg, I. & Qian, J. LSE EUROPP, *How different will this time be? Assessing the prospects for economic recovery from the Covid-19 crisis*, 23 April 2019

Meredith Crowley, University of Cambridge

"Donald Trump's botched handling of the coronavirus outbreak in the US has put him in danger of losing the November election. He is now on the backfoot and more desperate for some kind of economic policy success that he can sell to his supporters as a win. This means that the balance of power in the UK-US negotiations have probably tilted slightly in the UK's favour. It still seems to me that the most likely outcome of the negotiations will be a deal of more style than substance, that is, only modest changes in the UK-US trade relationship, but the UK has a bit more power going into the negotiations now than it had in January. There isn't much upside, there isn't much downside to a photo-op deal, but it does risk domestic blowback if people realise that it achieves nothing economically."

However, a 'mini-deal' could present a risk if it pushes the UK towards an anti-China, anti-global governance view of the world.

There is a risk of agreeing to a deal for political purposes which does not end up providing significant (or indeed any) economic benefits, the leads the UK into an aggressive foreign policy stance and that could lead to a political rupture with the EU, as we outline in Chapter 3. Given that it is too soon to tell what the precise impacts of Covid-19 and its aftermath will be, the UK may be wiser to hold back from concluding any agreement that prematurely binds its hands.

A Senior USTR Advisor

"Feelings against China are running much stronger than they were, even a month ago. China-hawks are in the ascendancy and Americans are looking towards a more aggressive approach to China. That's going to create lots of issues for others who would just rather the Americans and the CCP to get along, but right now, it's not possible. The UK is going to have to decide where it stands."

Meredith Crowley, University of Cambridge

"The US has turned more inward and nationalistic under Covid while Britain has put forth a more globalist image. This growing ideological gap might make it more difficult for the UK and US to find common ground in areas like immigration and movement of natural persons for services trade. While the UK negotiating mandate highlights that many Britons want increased ease in obtaining visas to work in the US temporarily and recognition of professional qualifications in the US, the US has pursued exports bans on medical equipment, restrictions on immigration, and restrictions of short-term travel to the US."

Senior UK Finance Official

"The political statement could be an opportunity to move the US into a more sensible position. We don't yet know how the dynamics of these talks are going to develop, but the political leadership should be thinking about this strategic dilemma."

A Senior UK Government Official

"The choice for the UK between a Trump partnership and doing business with China is just going to get harder."

Professor Robert Lawrence, Harvard Kennedy School

"It's dangerous if the UK doesn't fully understand the implications of any UK-US deal for its dealings with the EU. The EU-UK deal is more important for the UK; you need to know what you'll need from Europe before entering a deal with the US."

Professor John Van Reenen, Massachusetts Institute of Technology

"The UK would face a harder task under the Democrats than under Trump. They would be less likely to offer "sweeteners" and Obama said the UK is at the "back of the queue" after Brexit."

Paul Tucker, Chair of the Systemic Risk Council

""If there were to be a Biden administration, we'd quite likely see a shift in US relations with the EU. I would expect key continental countries quietly to urge the US to drop its divide- and-rule approach, which (perversely) plays into Beijing's hands. Any such shift could cascade into US policy and rhetoric on Brexit."

Shanker Singham, Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary

"The Covid-19 crisis will likely cause a substantial geo-political realignment. The UK-US axis will become more important as will diversification of supply chains away from China – this does not mean a complete exclusion, but rather that the UK and others will start to think of China as a strategic competitor rather than a strategic partner. This will accelerate relationships among the UK, US and Asian nations."

In conclusion, our sixth finding is that even a 'mini-deal' is risky for the UK:

- **To circumvent potential roadblocks, avoid a clash with the EU agreement, and deliver a political Trump-Johnson "photo-op" victory before the US elections, it is highly possible that the UK and US could opt for a high-level political 'mini-deal'**
- **A 'mini-deal' could not take the form of a traditional FTA – but it could include a range of general commitments and tariff cuts, like the US-Japan and US-China "phase 1" deals**
- **While Covid-19 increases the political imperative for declaratory 'deal' there are risks if the price is the UK being pulled towards an anti-China, anti-global governance view of the world.**
- **However, if the 'mini-deal' broadens out beyond the US-UK bilateral trade relationship, it could be used as an opportunity to engage the US on multilateral cooperation to drive economic recovery from Covid-19.**

Conclusion

In summary, with the UK now out of the EU, a quick deal with the US offers an obvious launchpad for the 'Global Britain' agenda - and a way to show economic momentum as lockdown restrictions lift. A UK-US FTA has always been 'small beer' for the US and is fraught with roadblocks and risks for the UK. But Trump needs to kick the economy back into action and generate international support for his post-Covid, anti-China, foreign and economic policy.

The clear view of UK business remains that a substantive UK-EU deal should be the priority; a UK-US FTA risks preempting the relationship with the UK's current main trading partner - and some US business voices agree. The UK's forthcoming G7 Presidency is an opportunity to champion a new multilateralism in economic, trade and health policy in the wake of the global pandemic and start to rebuild international cooperation.

Can a UK-US bilateral 'mini-deal' this year help encourage the US back into the global economic community? Or will it close the door on the 'Global Britain' agenda and draw the UK into an emerging US foreign and economic policy based on anti-China bilateralism? That is the strategic challenge for the UK Government as it begins bilateral negotiations with the US on a UK-US FTA.

Named Interviewees

We would like to express our gratitude to all of those who spoke with us. We are enormously grateful to the senior government officials who took the time to speak with us anonymously. Due to the sensitive nature of their roles in the negotiations we cannot attribute quotes to these senior officials individually. A list of interviewees has been presented to John Haigh, co-director of the Mossavar-Rahmani Center for Business and Government at Harvard Kennedy School. Some of business experts we interviewed also chose to remain anonymous. In addition to the interviews, we reviewed the constantly growing body of literature on this topic being published on both sides of the Atlantic.

Marianne Rowden	**American Association of Exporters and Importers**
David Bharier	**British Chambers of Commerce**
Mike Spicer	**British Chambers of Commerce**
William Bain	**British Retail Consortium**
Emanuel Adam	**BritishAmerican Business**
Andrei Cazacu	**BritishAmerican Business**
Meredith Crowley	**Cambridge University**
Dan Ikenson	**Cato Institute**
Nikhil Datta	**CEP, London School of Economics**
Sarah Mukherjee	**Crop Protection Association**
Nick Catton	**EY**
Mike Cherry	**Federation of Small Businesses**
David Wright	**Former Commission Official**
Ignacio Garcia Berrero	**EU fellow at Oxford, previously chief TTIP negotiator**
Prof. Robert Lawrence	**Harvard Kennedy School**
Paul Tucker	**Harvard University**
Lawrence Summers	**Harvard University**
Lourdes Catrain	**Hogan Lovells**
Jonathan Clarke	**Imperial College London**
Sam Rizzo	**Information Technology Information Council**
Sharon Treat	**Institute for Agricultural Trade Policy**
Shanker Singham	**Academic Fellow at the Institute of Economic Affairs, former trade advisor to USTR and UK Trade Secretary**
Anand Menon	**King's College London**
Matthew Honeyman	**King's Fund**
Thomas Sampson	**London School of Economics**
John Van Reenen	**Massachusetts Institute of Technology**
Mark Dayan	**Nuffield Trust**
Gary Hufbauer	**Peterson Institute for International Economics**
Jeff Schott	**Peterson Institute for International Economics**
John Wakeman	**SaaS Industry**

Moshe Gavrielov	**Software/Semiconductor Businessman**
Soumaya Keynes	**The Economist**
Rosa Crawford	**Trades Union Congress**
Angus Canvin	**UK Finance**
L Alan Winters	**UK Trade Policy Observatory**
Peter Holmes	**UK Trade Policy Observatory**
David Henig	**UK Trade Policy Project**
Oliver Patel	**University College London**
Dennis Novy	**Warwick University**
Pedro Gurrola-Perez	**World Federation of Exchanges**
Richard Metcalfe	**World Federation of Exchanges**
Nandini Sukumar	**World Federation of Exchanges**

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