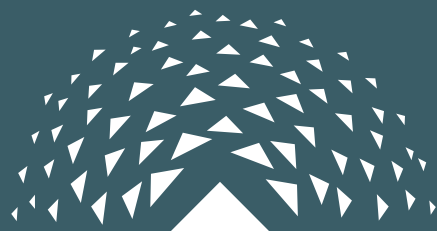


The future of UK-US relations after Brexit

Az Egyesült Királyság és az Amerikai Egyesült Államok
közötti kapcsolatok jövője

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Abstract: Despite the great anticipation of a new major UK-US free trade agreement, several roadblocks have hindered its initial momentum. These negotiations cannot be separated from those between the EU and the UK, since the US demands are frequently in conflict with the EU rules. The UK might have to pull away substantially from the EU standards in order to strike a trade deal with the US. With these considerations, the paper discusses the economic impact and main hurdles of the agreement, primarily concerning agriculture, environment protection, healthcare, and investor-state dispute settlement. It concludes that the UK should not substantially diverge from the EU regulations, since the US appears to insist on one-sided demands, and it is unlikely that a comprehensive US trade agreement can replace the economic benefits of the EU single market.

Keywords: US, UK, EU, UK-US free trade agreement

Összefoglaló: *A nagy várakozással övezett brit-amerikai szabadkereskedelmi megállapodás kezdeti lendületét jelentősen csökkentették a felszínre kerülő kényes pontok. Ilyen például azok az amerikai igények, melyek nem egyszer szembe mennek az EU-s szabályozással, és amelyek miatt az brit-amerikai tárgyalások nem választhatóak el az EU és az Egyesült Királyság között zajló tárgyalásoktól. Annak érdekében, hogy az Egyesült Királyság egyezsége juthasson az Egyesült Államokkal, merőben el kellene térnie az uniós szabványoktól. Az elemzés mindezeket figyelembe véve tekinti át a gazdasági hatásokat, valamint a legfőbb akadályokat, elsősorban a mezőgazdaság, a környezetvédelem, az egészségügy és a beruházó és az állam közötti vitarendezési mechanizmus területén. Az elemzés következtetése, hogy az Egyesült Királyságnak nem szabadna merőben eltérnie az uniós szabályozástól, mivel egyelőre az Egyesült Államok nem enged az egyoldalú igényeiből, valamint hogy valószínűtlen, hogy egy átfogó amerikai szabadkereskedelmi megállapodás helyettesíthetné az EU egységes piacának gazdasági előnyeit.*

Kulcsszavak: *Amerikai Egyesült Államok, Egyesült Királyság, Európai Unió, Amerikai Egyesült Államok és az Egyesült Királyság közötti szabadkereskedelmi megállapodás*

INTRODUCTION

A major new free trade agreement with the United States (US) was advocated by the Brexiteers as one of the great benefits of leaving the European Union (EU) in 2016. They suggested that the United Kingdom (UK) has a special relationship with Washington, which Brexit could elevate to a new

level. This assumption seemed to be confirmed as the two countries agreed to sign a Mutual Recognition Agreement, which guaranteed that all relevant aspects of the current EU-US agreement would apply to the UK after Brexit. As a result, goods produced in the UK and sold in the US, and vice versa, will remain compliant with regulations. President Trump has backed Brexit on several occasions and deemed the UK better off without the EU. In particular, the President expressed support for Prime Minister Johnson and his Brexit deal, which does not envisage a close economic relationship with the EU. Thus, trade relations between the two countries could increase substantially in the future.

Although there is evident enthusiasm for both parties to reach a deal, they have to overcome several roadblocks. First, the UK-US negotiations are connected to those between the EU and the UK, since US demands are bound to be in conflict with some EU rules and regulations. In other words, the Brexit negotiations have serious implications for how deep and exclusive the potential UK-US trade deal (or any future trade deal with non-EU countries) could be. Consequently, the UK might have to decide whether to follow the US or the EU regulatory framework and pull away from EU regime standards in certain areas (e.g. agriculture). Also, the US and the UK do not see eye to eye in issues ranging from climate change and digital law to healthcare. All things considered, it seems highly unlikely that they can quickly finalise an agreement.

This paper provides an overview of a US-UK free trade agreement. First, it presents what an ideal free trade agreement between the two countries would entail and introduces their initial negotiating objectives. Second, it investigates the economic gains of the trade deal and considers the impact of replacing the EU single market with free trade agreements with non-EU countries. Next, it displays the most discussed stumbling blocks for the negotiations, namely agriculture, environment protection, and healthcare. Finally, it discusses the implications of the trade deal concerning the “Global Britain” strategy and the US presidential election.

EXPECTATIONS

The think tank Initiative for Free Trade and the Cato Institute proposed [outlines](#) for a US-UK free trade deal in 2018. They advocated a comprehensive ‘negative list’ approach to liberalisation, where both sides would commit to much greater openness to competition in their industries. This free trade market deal would include all goods and services unless explicitly listed otherwise. The deal would consist of free movement of labour, zero tariffs on goods, zero restrictions on cross-border data, zero restriction on foreign direct investment, the prohibition against the use of non-tariff barriers, and no investor-state dispute settlement. Two points are primarily disputed. The first is the prohibition of non-tariff barriers, which would lift any performance requirements, and any restrictions



based on scientifically unproven public health and safety concerns. The second is the investor-state dispute settlement (ISDS), one of the main roadblocks in the Transatlantic Trade and Investment Partnership. It is a mechanism through which foreign investors can sue countries outside the national legal system.

The governments of both the UK and the US have highlighted their special relationship and that a free trade agreement would solidify and deepen this connection. The US published its [objectives](#) for these negotiations in February 2019, while the UK issued its own [version](#) in March 2020. The UK's negotiating objectives provide a comprehensive strategic case for a free trade agreement, and they showcase an official estimate of the gains to be had from a deal. Surprisingly, the US negotiation objectives [do not reflect](#) the special relationship, as they published virtually the same framework for negotiating with the EU and Japan. More importantly, the document is reminiscent of the 'America First' narrative of the Trump administration rather than grounded on mutually beneficial outcomes. The US has thus taken a very aggressive opening position, full of one-sided demands. In other words, the document does not offer any special treatment, and the US seeks to capitalise on the asymmetry of power between the two countries.

ECONOMIC IMPACT

The Brexit negotiations cannot be separated from the US-UK negotiations, since the UK would need to substantially diverge from the EU standards. This means that the UK is facing trade-offs and has to align with either US or EU regulations and rules. The stakes are significantly elevated, since the [OECD has warned](#) that the UK economy could be one of the worst-hit ones by COVID-19 among the Western countries.

According to [the Office of National Statistics \(ONS\)](#), the UK imported £590 billion worth of goods and services in 2016. The US accounted for £66.3 billion (11.23%), compared with the EU's £318 billion (53.85%). In terms of UK exports, out of the total £547.5 billion, £99.6 billion (18.2%) went to the US. By comparison, the EU accounted for £235.8 billion (43.07%).

Nevertheless, the US is the UK's [largest bilateral trading partner](#) and its largest single export market (not counting the EU as a whole), with total trade between the two countries valued at over £190 billion in 2018. The UK's largest exported goods to the US are trucks and cars (£6.8 billion), and its largest goods import from the US is turbojets (£5.3 billion). The UK's largest service exports to the US are financial services (£11.8 billion), and its largest service import from the US is in trade-related business (£6.8 billion). Additionally, there are significant investment links between the countries, with over £700 billion stocks invested in each other's economies. Consequently, the potential new free trade agreement could significantly boost the UK economy.

The British government has [published](#) and projected two main scenarios regarding the US-UK free trade agreement. Scenario 1 showcases a substantial tariff liberalisation and a 25% reduction in non-tariff measures to goods and regulatory restrictions to services between the two countries. Scenario 2 displays a more comprehensive trade deal, with full tariff liberalisation and a 50% reduction in non-tariff measures and regulatory restrictions to services. The US trade deal could grow UK gross domestic product (GDP) by 0.07 under scenario 1 and 0.16% under scenario 2 over the next 15 years. In other words, it would mean an increase of £1.6 billion or £3.4 billion compared to 2018. Regarding the US, its GDP is predicted to increase by 0.03% and 0.05% in scenarios 1 and 2, respectively, meaning gains of £3.9 billion and £7.5 billion. Regarding bilateral exports, the UK export to the US is estimated to increase by 4.3% in scenario 1 and 7.7% in scenario 2. In comparison, the US exports to the UK would increase by 4.1% in scenario 1 and by 8.6% in scenario 2.

Over the next 15 years, the reduction of trade barriers with the US would provide a substantial economic boost for British businesses, notably for the 30,000 Small and Medium-sized Enterprises (SMEs) already trading with the US. These SMEs cover several sectors, such as the automotive, manufactured goods, food, and farming sectors. Currently, the US imposes £451 million worth of levies on UK exports each year. For instance, ceramics have an exceptionally high tariff of 28%, and some textiles have levies of up to 32%. Regarding food products, cheddar cheese has a steep 17.6% tariff. Accordingly, British firms could increase trade as a result of a decline in trade expenditures on both imported inputs and exported outputs. Surprisingly, financial services output could decrease by 0.5%. Additionally, the UK expects welfare gains between £0.9 billion and £2 billion, which would result in better-paid jobs and changes in prices and product ranges and services available to the public. The real wage could increase by 0.11% in scenario 1 and 0.20% in scenario 2. Lastly, Scotland, the North East, and the Midlands would benefit the most, whereas London, the South East, and the East of England would benefit the least.

It is also worth examining the impact of replacing membership in the EU single market with new trade deals with non-EU countries. [The National Institute of Economic and Social Research](#) has found that if the UK negotiates new trade agreements similar to those previously concluded, then their impact is expected to be relatively moderate compared to the losses from leaving the EU single market. They estimate that leaving the single market would generate a long-term decline in total UK trade of between 22% and 30%, depending on whether the UK strikes a deal with the EU or not (Table 3). Trade agreements with all of the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa) are estimated to lead to a long-term increase in total UK trade at 2.2%, while similar trade deals with all the Anglo-American countries (USA, Canada, Australia, and New Zealand) would yield increases in trade at 2.6%. This staggering difference shows that the EU single market is a profound and extensive trade



agreement aimed at decreasing non-tariff barriers, while most of the non-EU free trade agreements appear to be relatively inefficient at tackling the non-tariff barriers that are particularly crucial for service trade.

Table 3 also provides estimates if the UK replaces single market membership with a free trade deal with the EU. Taking the ONS numbers on UK trade (exports plus imports) in 2014 with the European Economic Areas amounting to £398.3 billion in goods and £150 billion in services as a guideline, this would indicate a long-term reduction of 139.3 billion in goods and 91.5 billion in services, equaling declines of 20% in total UK goods trade and 26% in total UK services trade.

Table 1 also displays estimates of potential increases in trade from concluding a new set of free trade agreements with all of the Anglo-American economies, which is expected to have a long-term increase of £21.5 billion or 3.0% in goods trade and no increase in service trade. The lack of increase in services can be explained by the fact that non-EU trade deals are ineffective in reducing non-tariff barriers.

[Table 1](#)

The change in total goods and services trade is a weighted average of the change in goods trade and the change in services trade, using the shares of goods and services trade in total trade with the appropriate group of countries as weights

	Goods	Services	Total
Single market to WTO rules with EU	-32%	-26%	-30%
Single market to EU FTA	-20%	-26%	-22%
WTO rules to BRIICS FTA	3.2%	0%	2.2%
WTO rules to Anglo FTAs	3.0%	0%	2.6%

The Research Group concludes that the overall impact of replacing the EU single market membership with a trade deal with the EU, and of striking trade deals with all the BRIICS and all of the Anglo-American countries is predicted to result in a long-term decline of £94.5 billion in UK goods trade and £91.5 in UK services trade. In other words, new sets of free trade agreements cannot replace the EU single market, even with a deal with the EU. Therefore, it is highly unlikely that the UK can replace the benefits of the EU single market with a comprehensive US trade deal.

Nevertheless, it should be noted that [the National Institute of Economic and Social Research](#) has estimated outcomes that might require five to ten years or more to unfold. Also, the study estimates the advantages of the trade deals, whether with

the EU or with non-EU countries, using a large sample size of current trade agreements. In a sense, the study presumes that the UK's future trade agreements would achieve as much trade as the 'average' trade deal in the sample. The UK government could conclude trade agreements that are much more efficient in increasing trade than the average free trade agreement, notably for services. In what follows, this study examines the main sticking points of the UK-US trade negotiations.

AGRICULTURE

Regarding farming and food standards, the US and the EU have very different sets of rules and regulations in place. The UK has been a [strong advocate](#) for high animal welfare and food safety standards in Europe. The British government seems to have insisted on not to bargain away its high farming and animal welfare standards in the negotiations. Mr Johnson, however, has played down warnings over US agriculture methods. The US has a clear objective to liberalise trade in food without any preconditions and argues that the EU level of standards is higher than those set by the WTO. They urge the UK to align with the American practices and remove non-tariff barriers in order to conclude the trade deal.

The US aims to sell products such as chlorine-washed chicken and hormone-fed beef, which are prohibited in the UK. The US has underlined that the methods used are in accord with the WTO rules in Sanitary and Phytosanitary Measures. They have pointed out that the EU ban on these products are WTO-illegal and not based on scientific evidence. Also, the American methods are cheaper than the EU-style supply chain hygiene, which could provide cheaper food for British consumers. Mr Johnson has [described](#) washing chickens with chlorine as a "public safety no brainer" and hormone-fed beef as "completely safe to eat". He also added that the EU's "Museum of Agriculture" was not sustainable, [warning](#) that it would be a missed opportunity if the UK continued to align with "the EU's traditionalist approach to agriculture". In terms of animal welfare, British farmers maintain significantly higher standards than American ones. As an illustration, US chicken farms [are not required](#) to include windows in their sheds or clean out between flocks. [The National Farmers Union \(NFU\)](#) and the public have demanded that the British government does not compromise its high food and animal welfare standards. The NFU has underlined that cheap American products would undermine British producers. In addition, British consumers demand maintaining high standards of food and animal welfare.

If the UK determines to align with the American agricultural and food standards, British farmers will face trading barriers with their European partners after Brexit. At the moment, the UK [exports £18 billion worth of food and drink](#), of which £9.4 billion goes to the EU, compared with £1.9 billion to the US. Although the US-UK trade deal could significantly decrease the tariff of certain foods and drinks, the British [government has estimated](#) a small increase in output in the agriculture, semi-processed, and processed food sectors.



Furthermore, the EU would want to be certain that American food products do not enter its market. This could [have implications](#) for the border between the Irish Republic and Northern Ireland because the EU enforces food quality standards on imports through border inspection posts in the vicinity of the point of entry into its market. In other words, Northern Ireland would have to manage different agriculture systems. A common food standard zone covering the whole island could be one solution to the problem. However, this would mean that Northern Ireland would have to adopt different regulations than the rest of the UK.

ENVIRONMENTAL PROTECTION

Similarly, the US and the EU have different environmental standards, and the UK will have to decide which regulatory framework it wants to align with. [The polarisation](#) between the UK and the US on environmental protection is even greater than on food standards and animal welfare. Notably, the UK has an ambitious plan to decarbonise by 2050, while the Trump administration has withdrawn from the Paris climate accords and reversed many environmental regulations. Also, the US has implied that [they would not discuss the climate crisis](#) or any other terms in any other deals, which could mean that the US will not regard any existing environmental regulations as legitimate against their demands. The US [could pressure](#) the UK to weaken existing regulations, or worse – considering the UK has ambitious climate goals but few actual policies as yet – negotiate clauses advantageous to the fossil fuel industry that cannot be reversed by domestic procedures. This would sabotage any climate policy before it can be proposed. For instance, the US fossil fuel companies can pressure the UK government to reverse the fracking ban so they can operate in the country. The UK government has [ended the support](#) for fracking because it is not possible with the current technology to predict the probability of earthquakes associated with fracking operations.

HEALTHCARE

The US negotiators have [been explicit about how everything is on the table](#) in the trade with the UK, including the National Health Service (NHS). First, the US aims to provide American health companies with greater access to the UK health sector. American companies can bid for NHS tenders, but they need a local subsidiary and have to be registered with the Care Quality Commission watchdog. However, only a few US companies can profit from these tenders because the rules and regulations are intricate and opaque. The US negotiators are now demanding a more [simplified bidding process to open up greater access](#). Second, US negotiators want to include the ISDS

mechanism so that American drug companies can sue the NHS if services are not publicly tendered. Third, the US demands discussions about drug pricing, product approvals, and longer patents for American medicines. At present, the independent National Institute of Health and Care Excellence [puts a price cap on medicines](#) used in the NHS, which obligates American companies to sell their products cheaper in the UK. For instance, the NHS has managed to force the American manufacturer, Vertex, to bring down its price.

Consequently, if the UK [gives up the ability](#) to negotiate prices or import generic drugs (i.e. cheaper medicines) under the trade deal with the US post-Brexit, the NHS drug bill could increase from £18 billion to £45 billion a year. [The Labour party has implied](#) that the NHS and pharmaceutical patents were initially part of the trade negotiations between the US and UK in 2019. The government has repeatedly denied these claims and stated that the NHS is exempt from the trade negotiations. They have emphasised that the NHS is not and never will be on the table.

TRADE BILL

The UK government has [published the Trade Bill](#), which provides a framework for the UK to trade with other countries outside the EU. It will also allow the UK Government to implement roll-over agreements, which are trade deals that the EU already has with third countries. Thus, the Bill guarantees trading continuity for businesses and consumers.

Many British Members of Parliament (MPs) have [raised concerns](#) about the Trade Bill because they would not be able to prevent the government from defining the trade negotiating objectives and the final agreement. Jonathan Djanogly, Conservative MP, put forward an amendment that would have ensured a binding vote on trade deals, but Tory backbenchers defeated the amendment. Consequently, future trade agreements could be approved without a parliamentary veto and formal committee scrutiny for future trade agreements. Likewise, there have been [attempts at putting in place requirements](#) to protect the NHS, including safeguarding the rights of health workers and regulating prices paid for medicines and medical equipment, as well as maintaining food standards and environmental standards. The British Parliament has rejected all the amendments but passed the Trade Bill, which means that the government could go back on any commitments previously stated.

WTO RULES

According to [WTO rules](#), a trade deal must reduce barriers between the parties but must not raise barriers to others and must cover substantially all trade. These rules serve to prevent countries from concluding lots of small specific deals in order to circumvent WTO rules they disagree on. This means



the UK and the US cannot leave out issues that they disagree on. In a sense, the Trade Bill allows the UK government to conclude a deal that covers substantially all trade without any restrictions.

INVESTOR-STATE DISPUTE SETTLEMENT

The US has indicated that it would aim to include an investor-state dispute settlement (ISDS) mechanism in any trade deal. The mechanism is one of the most significant sticking points because it could impact all areas. The ISDS would allow foreign companies to sue governments within the framework of a trade deal but outside of their national legal system. This would mean that the ISDS may restrict policies that the government would otherwise implement, for fear of being litigated by large American corporations. Even if they agree on exceptions in a trade deal, the risk derives from the fact that these disputes are interpretations of what is a valid public justification. For instance, the ISDS mechanism could prevent UK climate policies either because they are not in accord with the trade agreement or because the government may face legal disputes with large American corporations.

GLOBAL BRITAIN

Prime Minister Johnson and other prominent Brexiteers have advocated for harvesting the full potential of a “Global Britain” once the UK leaves the European Union, to negotiate and conclude lucrative free trade agreements on its own terms. In 2019, the UK concluded trade agreements with 20 countries, which [represents 8%](#) of the UK’s international trade. The UK risks losing its global influence by losing easy access to the EU common market, being unable to conclude a comprehensive trade deal with the US, and drifting towards a trade fight with China. Further problems might arise if the UK yields in issues like food standards or environmental regulations in the discussions with the US, as it risks falling afoul of what has been agreed with the EU. At the same time, the UK’s relations with China, its third-biggest trading partner, have been strained by Britain’s recent decision to ban Huawei from its 5G network development and condemning China’s imposition of a controversial national security law in Hong Kong. Besides, the US is seeking to insert a clause in the US-UK free trade agreement which would allow them to veto the UK’s ability to strike trade agreements with “non-market economies”-potentially indicating China. Thus, the adoption of the clause would provide extensive leverage for the US over UK policies towards China. In other words, if the UK extensively yields to the US demands, the possibilities of a “Global Britain” might be severely limited.

US PRESIDENTIAL ELECTION

Despite the bursts of enthusiasm in 2017 and during the campaign of the 2019 British general election, it is virtually impossible that a deal will be finalised before the US presidential election in November. The US Congress has to approve any US-UK free trade before it comes into force even if the two governments have agreed on the terms. It is also possible that President Trump, with all of his support for Brexit and a significant trade deal, will be voted out of office before sealing the deal. Many of Democratic challenger Joe Biden's foreign policies are closer to those of Prime Minister Johnson than the ones adopted by President Trump, including the stance on Russia, the Paris agreement, or the Iran nuclear deal. Nevertheless, they have opposing views on Brexit. The day after the Brexit referendum Joe Biden expressed his disappointment while serving as Vice-President under Barack Obama. In 2018, he reiterated his disapproval of Brexit, highlighting that the "US interests are diminished with Great Britain not an integral part of Europe". The Democratic administration reportedly seeks to re-build the transatlantic relations. Joe Biden's position on the US-UK trade deal is not known, but the EU may take priority over the UK.

CONCLUSION

In 2016 Brexiteers advocated that a free trade agreement with the United States would be one of the major benefits of leaving the EU. They implied that the UK and the US share a special relationship, and a comprehensive trade deal would solidify and deepen this connection. These bursts of enthusiasm slowly diminished as the countries started the trade negotiations. The UK-US negotiations cannot be separated from those between the UK and the EU, since the US demands are bound to conflict with EU rules and regulations. Consequently, the UK is facing trade-offs and has to align with either the US or the EU regulatory framework. The US also insists on one-sided demands, such as including the NHS in the deal and limiting the "Global Britain" strategy. According to the National Institute of Economic and Social Research, a set of new trade agreements with all the BRIICS and with all of the Anglo-American countries cannot replace the benefits of the EU single market, not even if there is a deal with the EU itself. Thus, it is highly unlikely that the UK can replace the economic gains of the EU single market with a comprehensive US trade deal. Considering all this, the paper concludes that the UK should not substantially diverge from the EU standards.