

BREXIT UNIT

Much to gain and little to fear from a US-UK trade deal

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10th July 2018

Contrary to the words of President Obama during the EU Referendum, the UK should not be “at the back of the queue” for a trade deal with the USA. With strong political support for a US-UK trade deal and close economic and close financial ties between our two countries, Britain should, in theory, be able to strike a good trade deal with the US far quicker than the EU ever could.

Yet a number of immediate obstacles remain. Firstly, it is vital that the UK escapes the constraints of the EU’s Customs Union, and is able to diverge from EU regulations. Without regulatory autonomy, Britain will be unlikely to conclude a trade deal with the US - or anyone else. Accepting this as a starting point is crucial if we wish to avoid scuppering one of the chief prizes of Brexit.

Secondly, the government should be wary of popular scaremongering about such a deal. Opponents of a US-UK FTA have tended to exaggerate the risks, including fears that it would inevitably lead to the ‘Americanisation’ of the NHS, a free-for-all for powerful multinational corporations, or a race to the bottom in food standards. Yet we should not lose sight of the many areas where both sides can gain. A timely US-UK trade deal could help post-Brexit Britain to set out its stall as a global champion of free trade.

Will a deal be done?

There are a couple of conditions that must be met before a separate US-UK trade deal is possible. First, the UK must leave the EU’s Customs Union and escape the constraints of the EU’s Common Commercial Policy. Otherwise, the UK will not be able to conclude its own trade deals with anybody. Some form of half-way house, where the UK has a free hand in respect of services but not goods, would almost certainly rule out a meaningful deal with the US too.

Second, the UK must be able to diverge from at least some EU regulations. Of course, any future UK-EU trade deal is likely to set terms that apply to bilateral trade with the EU. Nonetheless, these must not prevent the UK from applying different rules for trade with other countries.

These caveats aside, there is strong political support for a US-UK trade deal on both sides of the Atlantic. President Trump is obviously wary of big, multilateral agreements, such as NAFTA or the Trans-Pacific Partnership (TPP). But he has been enthusiastic about the prospect of bilateral deal with the UK, and there is staunch support on Capitol Hill too.

Key points

- The US is likely to be at ‘the front of the queue’ for a new trade deal with the UK after Brexit.
- This would require the UK to escape the constraints of the EU’s Customs Union and also be free to diverge from EU regulations. But if these two conditions are not met, many would question whether ‘Brexit’ has any meaning at all.
- The political support for a US-UK trade deal is strong and the economic and financial ties between the two countries are already close. The UK should therefore be able to do a good trade deal with the US more quickly than the EU ever could.

What's more, the economic and financial links between the two countries are already close. For example, the UK exports more goods to the US than to any other country, and the US and the UK are each other's largest source of foreign direct investment. The UK should therefore be able to conclude a good trade deal with the US sooner than the EU ever could.

Doing a quick deal with the US, and other friendly countries like Australia and New Zealand, would also get UK trade negotiators back in the swing again. This should help in the harder talks that lie ahead with faster-growing emerging economies, such as China and India, where the existing ties are not as close and the scope for gains therefore even larger.

A US-UK deal won't lead to a stealth takeover of the NHS

That said, even a deal with the US is unlikely to be straightforward. Sceptics in the UK have already raised three main concerns.

The first can be dismissed quickly. Some have argued that any deal which makes it easier for US firms to bid for UK public sector contracts would inevitably lead to the 'Americanisation' of the NHS. This is pure 'Project Fear'.

A US-UK trade deal may mean that more of the NHS contracts that are currently awarded to private British or EU companies go, in future, to private US companies instead. But this would be a good thing, as increased competition from a wider pool of potential suppliers should improve quality and drive down costs. What's more, there is no reason why the nationality of the providers of goods and services used by the NHS should undermine the fundamental principles on which the NHS is run. In particular, healthcare would remain universally available and free at the point of delivery – unless the UK government decides otherwise.

Of course, it is possible that US negotiators will ask for an increase in the number of contracts that are put out to private tender, in the hope of gaining more business. However, the UK government could simply say no.

Wrong to pre-judge the risks of an ISDS

The second concern may be only slightly less paranoid. This is the fear that a US-UK trade deal will include some form of legally-binding arrangement where companies and investors can sue governments in what are effectively private courts – known as investor-state dispute settlement (ISDS) mechanisms. Some argue that this would allow powerful US companies to prevent the UK government from, for example, protecting the environment or workers' rights (or allow UK firms to do the same in the US).

As it happens, it is not obvious that free trade deals must include an ISDS mechanism. But whether it would be a big deal in practice depends on the terms of the agreement. It is hard to see why a well-designed system should penalise a government that is acting reasonably and within the rules. Remember also that the UK government is already subject to the jurisdiction of international courts – not least the ECJ!

Keeping up standards

The third concern is perhaps the most serious. Many have argued that a trade deal with the US would inevitably compromise the UK's high food safety and environmental standards. Here come the chlorinated chickens, hormone-treated beef products, ractopamine-infused pork, and GM crops...

But there are a lot of scare stories here too. For a start, it is wrong to assume that the most restrictive standards are necessarily the best. Rules should be science-based and proportionate, and the EU doesn't always get the balance right. There are also many cases where the choice could simply be left to the consumer, rather than a bureaucrat applying the most extreme of 'precautionary principles'. And perhaps most importantly, the UK government has already made it clear that it will not allow a trade deal with the US to undermine food safety or animal welfare.

- An early deal with the US, and other friendly countries like Australia and New Zealand, would also get UK trade negotiators back in the swing again. This should help in the harder talks that lie ahead with faster-growing emerging economies, such as China and India, where the potential gains are even greater.
- Some sensitive issues will have to be carefully managed. However, British opponents of a US-UK trade deal have tended to exaggerate the risks. These include fears that a US-UK trade deal would inevitably lead to the 'Americanisation' of the NHS, a free-for-all for powerful multinational corporations, or a race to the bottom in food standards.
- In reality, allowing more US firms to bid for public sector contracts should only improve quality and drive down costs. The rules determining any investor-state dispute resolution mechanism would be part of the negotiations.
- The impact on the agricultural sector may be most delicate. But the UK government has already made clear that it will not compromise on food safety or animal welfare.
- The upshot is that there is much to gain and little to fear from a US-UK trade deal. And as well as further strengthening one of the UK's closest relationships, it would help post-Brexit Britain to set out its stall as a global champion of free trade.

Both sides can benefit in many ways

What about the upsides from a US-UK trade deal? There are many areas – including aviation, defence and financial services – where trade could be liberalised to the benefits of both sides. But here are just two examples where the UK would clearly gain. First, if US firms are allowed more access to UK public sector contracts, the UK could reasonably expect equivalent access to the much larger US markets in return (meaning waivers from ‘Buy American’ provisions).

Second, the liberalisation of agricultural trade would result in more choice and lower prices for UK consumers for a wide range of foodstuffs, including many (such as rice and citrus fruits) which UK farmers do not even produce and where animal welfare is simply not an issue. Overall, then, this would be a win-win.

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