

What are the prospects of a U.S.-UK trade agreement after Brexit?

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Brexiters claim that leaving the EU single market and customs union creates a golden opportunity for the UK to regain power over its international trade. The potential future post-Brexit free-trade agreement that has received the most attention is that between the U.S. and the UK. A U.S.-UK Trade and Investment Working Group was set up in July 2017 to lay the groundwork for a potential future U.S.-UK free-trade agreement after Brexit. Political interest on both sides of the Atlantic was also boosted last week in New York as U.S. President Donald Trump and UK Prime Minister Theresa May reiterated their “mutual desire to form a wide-ranging trade deal.” The U.S. is, however, the more important market with the stronger bargaining power. The UK takes only 3 percent of U.S. exports, while the U.S. accounts for 15 percent of UK exports, as well as roughly 19 percent of the UK’s total imports of services and nearly 22 percent of the UK’s total exports of services.

In negotiating a free-trade deal, Washington will want to eliminate non-tariff measures restricting trade and push the UK toward U.S. regulatory standards. This could involve deregulation in several areas typically covered by EU legislation, particularly on agri-food. The U.S. might seek to cut restrictions on, among others, U.S. exports of hormone beef, chlorine washed poultry, pork containing feed additive, and genetically modified organisms. The UK would likely be hesitant to cave in to such U.S. demands given the dominance of EU trade for UK agricultural business and the necessity to avoid a hard border in Northern Ireland. Indeed, the UK government’s expressed intention is to not reduce food and animal welfare standards after Brexit. May’s Brexit plan clearly states that the UK will continue to align itself with EU standards for goods, including on technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures. It follows that, regardless of the outcome of Brexit, and even in the case of a no-deal with the EU, the existing hurdles to a U.S.-UK trade agreement would remain.

While this does not eliminate the prospect of a U.S.-UK free-trade deal after Brexit, any such agreement would likely be limited in scope. As a result, it might cover reduction or elimination of tariffs in the automotive or agricultural sectors, protection of foreign direct investments, cross-border data flows and digital trade, intellectual property rights, and rules on small- and medium-sized enterprises. The UK would push for trade deals covering the service sector, as this accounts for 70 percent of UK trade with the U.S. EU-U.S. trade negotiations (TTIP), which made progress on reducing regulatory divergence in several areas including pharmaceutical goods, cosmetics and telecommunications before being put on hold in 2017, may form the basis for U.S.-UK negotiations. Actual U.S.-UK trade deal negotiations are not expected to begin until the UK’s future relationship with the EU has been clarified. U.S. and UK businesses are well-advised to start considering the terms of a free-trade agreement that would best serve their interests.