

# At the front of a very slow queue

Blog post by Chief Economist Gregor Irwin, 23 January 2017

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British Prime Minister Theresa May goes to Washington this week to meet President Trump, with the aim of securing a strong public commitment to conclude a trade deal at the earliest opportunity.

For Trump, this is partly about politics and the desire to differentiate himself from former President Obama, who told the British people they would be at the back of the queue for a US trade deal. For May, it is about demonstrating the UK has outside options should the Brexit negotiation go wrong, while going some way to meeting the high expectations for an independent UK trade policy set during the referendum campaign.

With the interests on both sides apparently aligned, does that mean the prospects for a quick, worthwhile deal are good? No, for several reasons.

First, there is a Brussels problem. EU rules mean the UK cannot legally begin negotiating a trade deal with the US before the UK leaves the EU. The UK may be tempted to enter informal negotiations before then, but at the risk of antagonising the EU, which has its own trade relationship with the US to worry about. The UK may choose to ignore that, but it means further souring the relationship with Brussels just as the Brexit negotiations are starting.

Second, there is a Geneva problem. Every WTO member has a schedule of commitments, which sets out the terms of access it offers to all other members. When the UK leaves the EU, it needs its own schedule to be agreed by consensus among the entire WTO membership, and that is far from trivial. Some countries may make reasonable demands of the UK and negotiate these in Geneva; some others may be tempted to take advantage of the leverage they will temporarily gain over the UK. Until this schedule is agreed, trade negotiators in Washington won't know the baseline for the UK negotiation.

Third, there is a triangularity problem. Washington will need to know the value of the concessions it negotiates with the UK. In many sectors, including car manufacturing, pharmaceuticals or financial services, this will depend on the UK's trade relationship with its largest trade partner, namely the EU. In some sectors, the value to US companies from easier access the UK market comes not from serving UK consumers, but as a bridge to the much bigger EU market. US negotiators will want to see how wide and strong that bridge is. The UK may also be constrained in what it can offer the US until the EU deal is done. British trade negotiators may be open to converging vehicle safety testing regimes on both sides of the Atlantic - but not if it jeopardizes collaboration with the EU in the same policy area.

Fourth, there is a sovereignty problem. The big prize in any UK-US trade deal is not tariff reduction, as with a few notable exceptions, tariffs are mostly small already. The big prize comes from removing regulatory barriers to trade. But this means conceding some sovereignty over regulation. This is a sensitive issue in the UK, and it is pretty much a red-line in the US for both Congress and independent regulators.

While the Brussels problem will get the early press attention and the Geneva problem is something for trade specialists to worry about, it could be that the triangularity and sovereignty issues end up being the much bigger obstacles to getting agreement on anything meaningful.

Are there any grounds for optimism? Yes, if you look hard enough. The people in power and policies are changing in Washington. Openness to change is a precondition for a successful trade deal, unless one side is simply going to dictate terms to the other. There was little evidence of that openness under the previous US administration, as trade talks with the EU struggled to take off. Key figures in the new team, such as Treasury Secretary nominee Steven Mnuchin, might just be willing to break new ground and, fresh from Goldman Sachs, he will, at least, understand the potential benefits from a deal in financial services.

Even so, a trade agreement with the UK is unlikely to be a priority for the new US administration, no matter what is said at the Trump-May press conference. Domestic priorities and campaign promises will always come first. May will certainly prefer to be at the front of the queue, compared to the alternatives. But the wait for a meaningful US deal may still be a long one - if it happens at all.