

Five US reasons why a US-UK trade agreement may be difficult this year

Blog post by Senior Associate Miranda Lutz, May 6 2020

On May 5th, the US and UK initiated discussions on a trade agreement between the two countries following the UK's formal exit from the European Union. These negotiations are likely to take on a vastly different tone after being upended by covid-19, as the initial two-week session will be held over a series of video calls led by the US trade representative, Robert Lighthizer, and UK international trade secretary, Liz Truss.

US Objectives

- Reduce non-tariff barriers such as making changes to the sanitary and phytosanitary measures (SPS) standards to accept US agriculture products that are genetically modified, as well as, poultry that has been treated with antimicrobial rinses
- Replicate US standards for Intellectual Property (IP)
- Ensure there are no data localisation requirements and no digital services taxes
- Secure full-market access for US pharmaceutical companies and challenge the NHS' reference prices for purchase of pharmaceuticals

UK Objectives

- Lower tariffs and trade barriers on Britain's manufactured goods like cars
- Remove tariff on UK steel and aluminium
- Uphold UK's consumer and environmental standards
- Keep NHS off the negotiating table

Joint Objectives

- Tariff liberalisation
- Enhance market access and provide regulatory alignment
- Set the 'gold standard' for trade

While there is consensus that a bilateral agreement would be beneficial for both the US and UK, given that the trade relationship between the two countries is one of the world's largest, we think it is unlikely negotiators will be able to make progress on substantive agreements in light of the covid-19 pandemic and other mitigating factors. Below are some of the main obstacles facing US and UK trade negotiators:

- **Evolving priorities.** Covid-19 has both limited negotiators to virtual discussion and shifted the negotiating objectives of both countries. Amidst the coronavirus outbreak, countries around the world are turning inward to focus on alleviating the devastation that has hobbled their economies. Already a skeptic of globalisation, US president, Donald Trump, is tasking his administration to examine ways the government can diversify supply chains after the pandemic exposed the risks of substantial reliance on Chinese manufacturing and products. This dynamic will certainly impact US-UK discussions by placing an emphasis on the need to address China's trade relations with the two countries. Covid-19 has also brought to a head concerns over health

care and the pharmaceutical industry. The pandemic is likely to harden the UK's objections to including the National Health Service in any discussions, given the NHS' vital role in addressing the covid-19 crisis there. Meanwhile, coronavirus vaccine development will surely play a role in negotiations over pharmaceutical pricing and intellectual property (IP) protections for biosimilars - both priorities for the US.

- **US-UK trade negotiations are staring down the barrel of the 2020 US elections.** With just under six months to go until Americans head to the polls, the Trump administration's bandwidth for negotiating a comprehensive trade agreement will be increasingly compromised. Our sense from recent conversations with US political contacts suggest that inking a UK trade deal would not deliver much of a political win for President Trump.
- **Any trade agreement would have to be approved by the US Congress.** It took over three years for the US-Mexico-Canada Agreement (USMCA) to be negotiated, ratified, and implemented. One reason for the lengthy process was the Democratic-controlled House of Representatives compelled the Trump administration back to the negotiating table in order to achieve certain policy objectives relating to labour conditions and environmental standards. Though a US-UK FTA is likely to be less controversial than USMCA, House Democrats will be reluctant to hand Trump any kind of legislative victory leading up to his re-election bid.
- **What will the UK's trade agreement with the EU look like?** Ultimately, a trade deal between the US and the UK can only be implemented once Britain has formally completed its transition out of the EU in 2021. The United Kingdom has yet to complete its negotiations determining the contours of what the UK-EU trade relationship will look like in 2021. The kind of access the UK will have to the European Union's customs and financial markets will largely determine the main "asks" from the US business community in a US-UK agreement. However, the UK is hoping to use an agreement with the US to exert leverage in discussions with the EU, setting up a conflict on sequencing.
- **The relationship between Johnson and Trump.** The personal relationship between UK prime minister, Boris Johnson, and Trump took a hit after Britain's decision to provide Chinese-owned firm Huawei access to the UK's 5G telecommunications network earlier this year. This setback will only make it more difficult for the discussions to gain the necessary traction and buy-in from Trump.

It is possible the US and UK can finalise a series of smaller agreements addressing trade barriers on specific products such as autos, financial services, or specialty products, along with providing a blueprint for a broader deal after the November US elections. However, hopes of a larger deal in the near term are likely to be disappointed.