

The U.S. and Britain Should Conclude an Ambitious Free Trade Agreement as Soon as Possible

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KEY TAKEAWAYS

The U.K.'s free trade agreement with Japan, like its trade continuity agreements, demonstrate that the U.K. is committed to free trade.

The EU's goal continues to be to trap the U.K. in its regulatory orbit, thereby preventing the U.K. from maintaining an independent trade policy.

Both the U.S. and the U.K. must resist the temptation to take positions that could endanger their broader negotiations for a bilateral free trade agreement.

With strong political support in both nations, and with Great Britain no longer a member of the European Union, the United States and Britain are working hard to negotiate a free trade agreement. These negotiations were delayed by Britain's drawn-out Brexit, but are now proceeding, and Britain is showing its determination to develop the free trade policy merited by its position as an independent nation with the world's fifth-largest economy.

The fundamental difficulty with achieving free trade is often that, because of their lobbying power, individual sectors of the economy stand in the way of an agreement that would benefit the nation's consumers and producers as a whole. National governments must show political determination to not allow these small but vociferous interests to distract them from the pursuit of the wider national interest.

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Both the United States and Britain have much to gain from a bilateral free trade agreement. In addition to the economic benefits that would flow from such an agreement, the United States would confirm Britain's position as a nation outside the European Union's regulatory control, while the prestige of a free trade agreement with the United States would make it clear that Britain is indeed ready to resume its position as a great free-trading nation on the world stage. Neither nation can allow itself to be distracted from achieving these benefits.

Great Britain Is Advancing Free Trade

In the aftermath of the 2016 referendum that led to Britain's exit from the European Union, some commentators saw—and continue to see—a danger that post-Brexit Britain would resort to protectionism. These concerns were fundamentally mistaken. The leading Brexiteers were convinced free traders, and Victorian Britain was the birthplace of free trade. Because Britain has few natural resources and must therefore import much of its food and raw materials, free trade is a natural policy for Britain to follow, as tariffs impose costs on British consumers and producers.

In recent months, Britain has moved vigorously in pursuit of a policy of free trade. On September 11, 2020, it announced the successful negotiation in principle¹ of its first major trade deal as an independent nation, the U.K.–Japan Comprehensive Economic Partnership Agreement.² In addition to the significance of this agreement on its own merits, the British government applauds it as “an important step towards joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership,”³ the 11-nation trading agreement centered on the Pacific Ocean that the U.S. unwisely left in 2017. The U.K. has also signed agreements with 46 nations that ensure the continuity of existing trading arrangements for EU businesses, and negotiations are ongoing with another 23 nations.⁴ The signed agreements cover a range of nations, including significant British trading partners, such as South Korea and Switzerland. The U.K. is also vigorously pursuing trade talks with Australia and New Zealand.⁵

But, as important as these steps are, there is no doubt that the most important new trade agreement that the U.K. can reach is one with the United States. The U.S. published its objectives for these negotiations in February 2019. The U.K.'s publication of its objectives on March 2, 2020, marked an important milestone on the path toward the conclusion of an ambitious and comprehensive free trade agreement between the U.K. and the U.S. While the publication of the U.K.'s objectives was delayed until the U.K. completed its formal exit from the EU on January 31, 2020, the

objectives were nevertheless a constructive step that offered a firm basis for optimism about the rapid negotiation of a major free trade agreement between the U.K. and the U.S.⁶

Public Support in the U.K. for a Free Trade Agreement with the U.S. Remains Strong

According to research conducted by the U.K.'s Department for International Trade (DIT), support for free trade agreements in general, and for an agreement with the U.S. in particular, remains strong in the U.K. Two-thirds of the British public (66 percent) supports free trade agreements in general, and 63 percent believe that signing free trade agreements outside the EU would have a positive impact on the U.K. overall. The British government's strong position in support of free trade appears to have both reflected and reinforced the views of the broader public.⁷

New Zealand and Australia were the most popular potential trading partners for Britain, each supported by 64 percent of respondents. The U.S. was the next most popular choice, supported by 57 percent of respondents. Opposition to trade agreements with Australia and New Zealand was low, at 5 percent, and opposition to a trade agreement with the U.S. was at 12 percent. While the DIT survey did find that support for all trade agreements had declined marginally since its first survey, conducted in September 2018, the fact that support declined evenly across the board strongly implies that this decline had nothing to do with attitudes toward the U.S.⁸

While it is easy to find evidence of opposition to a trade agreement with the U.K. in the British media, the fact is that this opposition makes noise that is out of all proportion to its size. The majority of the British public is both supportive of free trade in general, and of an agreement with the U.S. in particular. That is a fact that the British government needs to bear in mind when it considers how to implement its negotiating objectives.

Both the U.S. and U.K. Must Avoid Taking Positions That Endanger the Negotiations

Though the interests of both the U.S. and the U.K. are in reaching a good agreement rapidly, their interests are inevitably not perfectly compatible. Both sides have sectional interests that will take positions that could complicate negotiations. It is important that both governments resist the temptation to take positions that could endanger the broader, and more important, negotiations.

The U.S. is engaged in a long-running dispute with the EU about its subsidies to Airbus. The details of this dispute are outside the scope of this *Issue Brief*, but it is broadly safe to say that—as the World Trade Organization (WTO) found in October 2019—the EU’s subsidies do indeed fall foul of WTO rules. It is also true that the U.S. retaliatory tariffs imposed later that month have raised prices for U.S. consumers, a step that can only decrease the U.S.’s domestic prosperity.

In the context of U.S.–U.K. free trade negotiations, the problem is that the U.S. tariffs included a 25 percent levy on single malt Scotch whiskies and liqueurs from the U.K., resulting in a 25 percent fall in Scotch whisky exports to the U.S. in the first six months. As international trade expert Shanker Singham, chairman of Global Vision UK, pointed out, “applying retaliatory tariffs to UK companies erodes public support for the US–UK FTA [free trade agreement], drives a wedge between the UK and US governments which those who are not allied with our global vision can exploit, and achieves no political gain in terms of changing EU policy.”⁹

The U.S. backed away from these self-defeating tariffs on August 12, 2020, when it removed British and Greek products from the tariff list and substituted products from France and Germany.¹⁰ This was the right step as far as the U.S.–U.K. negotiations are concerned, though it does not address the wider issues associated with the imposition of tariffs on U.S. imports.

For the U.K.’s part, one of the most controversial aspects of the U.S.–U.K. negotiations has long been the agricultural standards associated with an agreement. Much, if not all, of the controversy around agriculture is artificial. For example, while the U.S. use of chlorine to wash processed chicken is the subject of nearly continuous media attention in the U.K., it is rarely acknowledged that the U.K. already uses chlorine to wash vegetables.¹¹

The U.K.’s negotiating objectives walked a narrow line on the subject of agricultural standards, stating that the U.K. seeks to “uphold the UK’s high levels of public, animal, and plant health, including food safety.” This reference to upholding the U.K.’s “levels” of food safety, not to upholding specific regulations, did not commit the U.K. to an inflexible negotiating position.¹²

But in the legislative course of the U.K.’s 2020 Agriculture Bill—a crucial piece of legislation designed to transition the U.K. away from the EU’s fundamentally flawed Common Agricultural Policy—legislators tried to tie the hands of the government in negotiating trade agreements through an amendment seeking to require foreign nations to copy the U.K.’s standards into their own domestic law. Predictably, this effort was framed as an attempt to secure a “level playing field”—the standard code phrase for the defense of sectoral interests—for U.K. producers.¹³

As the U.K.'s Initiative for Free Trade pointed out, "these amendments could hamstring the UK's ability to negotiate preferential trade agreements, while excluding most foreign agricultural exporters, including those from the poorest countries in the world."¹⁴ Wisely, the government opposed this damaging amendment, which was defeated with 328 votes to 277 votes. Had it been adopted, this amendment would have made it all but impossible for Britain to maintain an independent trade policy.

What the U.S. and the U.K. Must Do

In order to make a rapid success of the negotiations for a free trade agreement between the U.S. and Britain, negotiations that are now starting their fourth round, both governments must:

Avoid Aggravating Sensitive Issues. There are elements in the U.S. negotiating objectives that will pose challenges for the U.K., just as there are aspects of the U.K. objectives that will raise concerns for the U.S. The areas that could cause trouble in the negotiations between the U.S. and the U.K. are well-known, and include agriculture, sanitary and phyto-sanitary standards, digital services taxes, government procurement, and indicators of geographical origin. But the objectives of both nations emphasize the value they correctly place on arriving at a free trade agreement. It is therefore incumbent on both nations to seek reasonable compromises, and, in particular, to avoid allowing narrow protectionist lobbies to defeat the broader objectives upon which both nations are agreed.

Seek the Best Agreement. The most encouraging aspects of the U.K.'s negotiating objectives are the emphasis the U.K. places on its commitment to free trade with like-minded democracies, including the U.S., and its proclaimed desire to seek an ambitious and comprehensive free trade agreement with the U.S., viewing it as a strategic opportunity to strengthen the Special Relationship. The U.S. should respond to this ambition and work constructively with the U.K. to help both nations take the fullest possible advantage of the once-in-a-lifetime opportunity afforded by the entry of the U.K., a liberal power and a top-five world economy, into the international trading system.

Consider Announcing an Agreement in Principle. Ultimately, for a U.S.–U.K. free trade agreement to take effect, it will have to be negotiated, and approved by the national legislatures, as a complete package. But as the negotiations between the U.K. and Japan illustrate, it is possible to announce an agreement in principle between negotiating parties. Another approach, noted by Singham, is to agree to so-called early harvest

measures in particular sectors, some of which could be completed by the executive branch without need for legislative approval.¹⁵ Britain and the U.S. should consider demonstrating the momentum behind the negotiations by announcing an over-arching agreement in principle, or sectoral agreements, as soon as possible.

Conclusion

The dangerous but rejected amendment to the U.K.'s 2020 Agriculture Bill points out the wider interests at stake in the negotiations over a free trade agreement between the U.S. and the U.K. The EU's fundamental goal has been, and remains, to lock the U.K. into its regulatory orbit, thereby nullifying in practice many of Brexit's achievements and making it effectively impossible for the U.K. to maintain an independent trade policy.¹⁶

The EU has sought to achieve this end in a number of ways. In particular, it has seized on the issue of the Irish border and sought to pin the U.K. between the unacceptable alternatives of establishing customs posts between Ireland and Northern Ireland, or erecting a barrier between England, Scotland, and Wales on one side, and Northern Ireland on the other. The struggle between the U.K. and the EU over the Irish border is not fundamentally about Ireland: It is about whether the U.K. will, or will not, be able to play an independent role as a trading nation in the world's markets. Americans who fail to understand this point are playing the EU's game.

For its part, the U.K. has been clear that it will not become a "client state" by locking itself into the EU's regulatory framework.¹⁷ The EU's regulatory imperialism is sometimes defended as a way to create a "level playing field," which is then framed as a contribution to freer trade, on the grounds that it is easier to trade when the field is level. This is wrong. Regulations, like tariffs, impose costs, and those costs do not disappear because they are called "progressive" or because they weigh equally heavily on both parties.¹⁸ If freer trade does not mean a reduction in the costs imposed by government on trade, the term has no meaning.

The U.S. and Britain should move as rapidly as possible toward concluding an ambitious free trade agreement. The steps both parties have taken so far have moved them toward this goal. To reach it, they must work together to keep up the momentum that will bring them to an agreement.

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Endnotes

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