



US ↔ UK

SHADOW TRADE TALKS & AN "IDEAL FTA"



The [IFT](#) launched in September 2017 at the UK Foreign & Commonwealth Office, with speeches by Foreign Secretary **Boris Johnson** and Trade Secretary **Liam Fox**.

IFT is Britain's only research institute dedicated solely to trade policy. It aims to capitalise on the opportunity Brexit has afforded Britain to liberalise its trade policy, by convincing three key audiences that more open trade will benefit the country (and, indeed our trading partners): policy-makers and legislators; businesses; the general public.

It's research covers unilateral trade policy, bilateral, regional and multilateral trade relationships, and sectoral issues.



US-UK TRADE BACKGROUND



The US is the UK's largest trading partner and export market

Britain is America's largest services trading partner

The US and UK are each other's number one source of FDI

British companies employ over a million American workers

More than 1.25 million Brits are employed by US affiliates in the UK

BREXIT

Britain is experiencing an “unfrozen moment” in its history as it exits the EU. For the first time in 44 years, Britain will control its own trade policy, outside the regulatory oversight of the EU single market and the common external tariff of the EU customs union.

Accordingly, Her Majesty's Government created the Department for International Trade (DIT) in July 2016, which in its first year established a global workforce of over 3,100 people, and set up 10 working groups with 15 countries. In DIT's first year, trade ministers visited 47 markets on more than 90 international visits in a bid to kick-start Britain's bilateral, regional and multilateral trade relationships.

Brexit is already a legal reality and will come into force in March 2019. Although negotiations on the UK's new relationship with the EU are embryonic, leaving the single market and the customs union is the UK government's stated policy, since it is considered the best reflection of people's reasons for voting to leave the EU in the 2016 Referendum. In the General Election of June 2017, over 84 percent of Brits voted for parties whose manifestos explicitly supported leaving the EU customs union and single market.

The UK's non-EU trading partners can therefore be certain of the UK's freedom to negotiate trade deals after Brexit. Highlighting the economic gains of such deals might even help convince sceptics that this is a good thing!

DIALOGUE

The UK Government has made it clear that negotiating a trade agreement with the US is a top priority, and number one of all the (non-EU) post-Brexit bilateral relationships. Although formal negotiations can't legally begin until after March 2019, talks have already begun in the form of a trade and investment dialogue. The historic first meeting of the Trade and Investment Working Group occurred in July 2017 in Washington, where Secretary of State for International Trade Liam Fox was warmly received by US Trade Representative Robert Lightizer and Commerce Secretary Wilbur Ross. The Working Group will meet regularly with a view to laying the groundwork for a future US-UK free trade agreement (FTA).

On the US side, Donald Trump says that a US-UK FTA will be “a very, very big deal, a very powerful deal, great for both countries and I think we will have that done very, very quickly.”

In November 2017, Commerce Secretary Wilbur Ross said this at the annual conference of the Confederation of British Industries (CBI):

“I am convinced that a historic trade deal between our countries would bolster this already strong partnership. President Trump is very supportive of such a deal and has repeatedly engaged with Prime Minister May on this important topic.”

There is equal enthusiasm on Capitol Hill, where there are already at least five pieces of Congressional legislation calling on the US to move forward with a trade deal with the UK after it has left the EU.

This February saw the first Congressional hearing on a US-UK FTA, and the UK Parliament's International Trade Committee is currently running a UK-US trade relations inquiry.

WHAT KIND OF DEAL?

So it's clear that there will be a US-UK FTA. But what kind of deal will it be? IFT's goal is to ensure it is as liberalising as possible, going beyond other bilateral deals that merely reduce tariffs on goods and largely ignore services. An ideal US-UK FTA would focus on mutual recognition of standards and qualifications for goods and occupations. There is one trade deal in existence today that enshrines mutual recognition to this degree: [ANZCERTA](#) between Australia and New Zealand, which has been recognised by the WTO as a model free trade agreement.

An agreement of this kind would be much less complex and quicker to negotiate than the usual deals that include multiple carve-outs for the protection of certain industries. And, unlike the Australia-New Zealand deal, whose benefits have largely been concentrated in those two countries, a deal between the world's largest and sixth-largest economies would have worldwide impact.

How long before Canada wanted to join? And Norway and Iceland, making a North Atlantic Free Trade Area? Australia and New Zealand would be logical additions, as would other countries that have embraced genuine free trade such as Singapore. From the bilateral base could grow a "coalition of the willing" that would help jump start the global trading system, stalled since the mid-1990s.



GAINS

IFT wants to show policymakers what the potential gains are from such a deal, so that the final agreement ends up being somewhere close to the ideal. Imagine mutual recognition in the field of pharmaceuticals, for instance; any pharmaceutical product approved by the Food and Drug Administration (FDA) could automatically be sold in Britain and vice versa. This would reduce cost and increase choice for consumers in both jurisdictions, with US consumers saving the most.

There are big potential savings for UK consumers when it comes to agricultural produce. Thanks to the EU's Common Agricultural Policy, its common external tariff and quota regimes, and its use of the precautionary principle to ban non-EU products from the market, British consumers have for decades suffered higher food prices and more limited choice.

US exporters of agricultural produce - beef, for instance - would have a brand new market to sell to, and British consumers a cheaper alternative to the current options.

Services dominate both the US and UK economies, so here the gains could be most significant. Financial services bodies on both sides of the Atlantic are already in dialogue and highly enthused about the potential economic gains.

But think also about the potential effects of the mutual recognition of qualifications - insurers, architects, reflexologists and the rest automatically licensed to work in both jurisdictions without retraining or requalification. Such a deal could even improve inter-state trade within the US, as it would no longer be tenable for professional bodies to deny Americans from other states privileges enjoyed by Brits.

CHALLENGES

Even at this early stage, the UK media and general public have shown a great interest in the future US-UK trade relationship. In the days surrounding the first meeting of the Working Group, the British media ran stories about American "chlorinated chicken" hitting UK supermarket shelves. There is consequently already a heightened public awareness of the difference between the US and EU standards regimes, and there are many myths about US standards that need to be dispelled, both among the general public and policymakers in the UK.

Legislators respond to public opinion and many trade deals have faltered due to lack of public support, so it will be vital to ensure the public is well-informed on these issues. By producing a draft FTA at this early stage, IFT hopes to rehearse some of these arguments in the public arena so that they are settled by the time the actual negotiation happens.

The challenge on the US side comes less from public opinion and more from the US Administration's approach to trade. The Administration has consistently declared itself to be wary of the following things:

- **The US trade deficit - both overall and bilaterally**
- **Trade with less developed countries where labour is much cheaper (eg. China, Mexico)**
- **Large regional trade deals like TPP, which the US has pulled out of, and NAFTA, which it is renegotiating**
- **The WTO dispute settlement mechanism, which it deems to be skewed against US interests**

Luckily, trade with the UK falls foul of none of these concerns (note that official US trade statistics show that the US runs a trade surplus with the UK). Everything indicates that the UK is the perfect candidate for the successful bilateral trade deal that the Administration is clearly after.

However, the decision to raise tariffs on Bombardier aircraft shows that "America First" policies could still pose a challenge to the transatlantic trade relationship. Although the action was primarily aimed at Canada, the US Administration was fully aware of the threat these tariffs posed to jobs in Bombardier's Belfast plant. It will be important to highlight the positive effect of a US-UK FTA on American jobs.

THE PROJECT

The Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies is drafting an **ideal US-UK FTA** document as described above. It will include economic modelling of the potential gains of such an agreement to both the UK and US economies.

This paper will then form the basis of the **US-UK shadow trade talks**: two rounds of simulated trade negotiations - the first in Washington DC, the second in London - in

which five British scholars and five American scholars will sit around a table to discuss and make amendments to the draft FTA. Each participant will represent one of the major US or UK free-market or conservative institutes, making this a concerted, cohesive push from the whole community. It is unprecedented for all these organisations to come together to work on a joint text, and the final document should have all the more impact for it.

Confirmed participants:



Present in the room but not participating directly in the negotiations will be a representative from the USTR and a representative from DIT, so that the respective administrations feel some involvement in and ownership of the process. They will be able to hear the context and tone of the arguments as well as just reading the final product, and should thus gain a deeper understanding of the issues at play. Their involvement will also lend greater weight to our endeavour.

After the second round of negotiations, when the final amendments have been made to the ideal FTA draft and the final version has been printed, two **parallel "launch" events** will take place in Washington DC and London, aimed at presenting the ideal FTA to the widest possible audience. One of the US "negotiators" and one of the UK "negotiators" will publish a **joint op-ed** across a major US newspaper and a major UK newspaper such as *The Wall Street Journal* and *The Times*.

OBJECTIVE

HOW TO ACHIEVE IT

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| <ul style="list-style-type: none"> To produce a blueprint to work towards in the actual US-UK FTA negotiations | <ul style="list-style-type: none"> Produce a final draft of an ideal US-UK FTA which focuses on the issues that will form the basis of the actual negotiations |
| <ul style="list-style-type: none"> To ensure the blueprint reaches as many of the relevant individuals as possible, including government officials, ministers and legislators | <ul style="list-style-type: none"> Utilise the access enjoyed by the participating institutes to invite all relevant individuals to the launch events Send hard and soft copies of the final paper to all relevant individuals |
| <ul style="list-style-type: none"> To produce a blueprint that is taken seriously by both governments | <ul style="list-style-type: none"> Involve all the major players in the free market and conservative think-tank movements on both sides of the Atlantic Involve well-respected trade economists Involve as observers representatives from both countries' trade departments |
| <ul style="list-style-type: none"> To produce a blueprint that is looked upon favourably by both governments | <ul style="list-style-type: none"> Emphasise and quantify in the final draft the gains to both economies of the various liberalisations recommended, for instance reductions in the price of goods, jobs created The final draft will explain how well-known political hurdles can be overcome Participation by representatives of both countries' trade departments (as above) |
| <ul style="list-style-type: none"> To publicly rehearse some of the most potentially controversial elements of a US-UK FTA in advance of the actual negotiations | <ul style="list-style-type: none"> Tackle these issues (eg. food standards) head-on and publicly in the shadow negotiations Put these issues at the centre of the final draft Participants in the shadow negotiations will not shy away from engaging with the media on these issues - see below |
| <ul style="list-style-type: none"> To add to the general public's understanding of US-UK trade relations on both sides of the Atlantic | <ul style="list-style-type: none"> Accompany the final draft with infographics and explainer videos that can be distributed on social media platforms Participants in the shadow negotiations will use their networks to reach the public using these tools, and engage in public debates on social media platforms Invite representatives of popular media outlets to the parallel launch events, accompanied with a joint press release Place an official joint op-ed on the project in widely-read newspapers on both sides of the Atlantic, participants will also publish their own relevant material in popular print media |
| <ul style="list-style-type: none"> To ensure the blueprint remains relevant in years to come | <ul style="list-style-type: none"> Celebrate the "anniversary" of the ideal US-UK FTA in March 2019 (and perhaps again the following year), timed to coincide with the UK officially leaving the EU and official US-UK trade talks beginning Amendments would be made to the final draft to take account of new political and economic realities Joint op-eds would be written by some of the original participants in prominent US and UK newspapers Parallel events would be held in Washington DC and London to present the (amended) paper and discuss developments in the actual negotiations |

TIMELINE

- 23 June 2016 → Britain votes to leave the European Union

- July 2016 → UK Department for International Trade created

- 8 November 2016 → Donald Trump elected as 45th President of the United States of America

- 24 July 2017 → First meeting of the US-UK Trade and Investment Working Group in Washington DC

- 27 September 2017 → IFT launches at the Foreign & Commonwealth office in London

- 15 November 2017 → Second meeting of the US-UK Trade and Investment Working Group in London. More will follow up to March 2019.

- March 2018 → First draft of the ideal US-UK Free Trade Agreement completed
- Early April 2018 → Draft shared among participants
- Late April 2018 → First US-UK shadow trade talks in Washington DC
- May 2018 →
 - Second US-UK shadow trade talks in London
 - Final draft of the ideal US-UK Free Trade Agreement agreed
 - Parallel launch events in Washington DC and London
 - Joint op-eds across US and UK newspapers
- March 2019 →
 - UK ceases to be a member of the European Union and enters an "implementation" phase
 - It seems likely the UK will remain in the customs union and single market at least for the start of this phase, for up to two years
 - Negotiations continue with the EU on the final EU-UK trade agreement
 - Official trade negotiations with third countries can begin, new trade agreements can be signed
- March 2021 →
 - Likely end of the implementation period
 - UK outside customs union and single market
 - Trade agreements can be fully implemented



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