

The free trade delusion

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Like stand-up comedy and boxing, trade negotiations are all about timing. It is not surprising, then, that the debate between the European Union and United States over UK trade began even before Boris Johnson had returned from his Christmas holiday in January 2020.

For the Foreign Secretary, Dominic Raab, International Trade Secretary Liz Truss, and fellow libertarians Steve Baker and Iain Duncan Smith, holding simultaneous talks on new free trade agreements with the EU and the US is an obvious way to pressure Brussels.

The trouble with this strategy is that Donald Trump does not like to lose. For the author of *The Art of the Deal*, the underlying philosophy of trade negotiations – one based on mutual sacrifice and mutual benefit – is unthinkable.

For those on Britain's intellectual right, such as the Conservative MEP Daniel Hannan, a hyper-liberal trade model would benefit all sides. Hannan spent 2018 working with right-wing think tanks on both sides of the Atlantic, including the Cato Institute and the Institute for Economic Affairs, to argue for genuinely liberalised US-UK free trade.

Yet this idea is unlikely to have any bearing on the US trade representative, Robert Lighthizer. In a presidential election year, the Republicans need to make it look like the US has prevailed in any trade negotiation with Europe over access to British markets. Trump's supporters in Washington have already claimed that the hard-ball approach to the trade war with China has paid dividends via increased tariff revenues and repatriated business.

Following the trade war ceasefire with Beijing announced this month, the White House has turned its attention to Europe. A tug-of-love over the UK in which the US outwits Brussels would be a valuable public relations win for Trump.

In Britain, both the domestic and geopolitical scene portend big problems for Johnson.

The idea of pursuing a twin-track negotiation with both the US and the EU may look like a classic opportunity to play one against the other. The danger for the government, however, is the risk of a diplomatic fallout if UK-US talks fail, infuriating a volatile American president seeking re-election.

As Phil Hogan, the EU's new trade commissioner, discovered in Washington this month, the Americans primarily want better access for food and farm products: US farmers are keen to sell their wheat, beef and chicken into the European market.

Yet the public clamour against genetically modified grain, hormone enhanced beef and chlorinated chicken suggests that British consumers will be resistant.

Taken alongside Michael Gove's commitment as environment secretary in 2017 that food safety standards would not be lowered, and widespread claims by Leave campaigners that Brexit would reduce food prices, and there appears to be trouble ahead for the government.

The US's second target sector is Britain's pharmaceutical industry. Labour's scare stories of a US "takeover" of the NHS during the 2019 general election were a chimera: hospital management is not the issue. The real focus of US ambitions is the UK drugs agency, the National Institute for Health and Care Excellence (Nice). Its vast purchasing power allows the NHS to buy drugs at far lower prices than those charged in the US.

And while US-made drugs can be much more expensive in their home market, Nice's negotiations help form the benchmarks for global purchasers. Yet Whitehall's trade negotiators have little room for manoeuvre. Any concessions on prices would mean a substantial rise in NHS drug bills – one that no government could concede.

UK trade negotiators are similarly constrained over financial services. The City of London, which is dominated by American firms such as JP Morgan and Merrill Lynch, has little to offer the US. Even if Washington allowed UK firms access to its financial services market, it would be for individual states to decide whether to issue licences to those British companies wanting to operate.

As John Kerr, a former ambassador to the EU and the US who is now a cross-bench peer in the Lords, told me: "The US is one of the most protectionist countries in the world."

The fact remains that the EU is the UK's biggest trade partner, taking £274bn of UK exports (44 per cent) against the US's £118bn (18.6 per cent). In trade, the EU matters more.

Nonetheless, the Tory right wants to withdraw Britain from European regulatory regimes, such as the EU's rules on data protection. Should Britain opt out from such standards, the alternative is to become a vassal to the US regulatory equivalents, or to invent its own regulatory system and ask world business to conform to it.

The blunt reality for Britain was spelled out to me by a senior EU Commission official recently. "The more divergent the position [from the EU], the more border controls and the more paperwork."

Despite this outlook, the order from Downing Street is that officials must adopt a rictus grin of gloomster-defying optimism. The trade negotiations with Brussels must be played out to the end.

The most likely sequence of events after the summer will be that negotiators from the UK and EU will negotiate a vague outline agreement and leave the more substantive talks to 2021.

As Simon Fraser, a former British diplomat, commented on 20 January: "Expect a summer blame game and a scramble in September to put together some sort of deal in October for ratification by the end of the year... followed by further negotiation."

What is that worth? Andrew Cahn, for five years the UK's top trade mandarin, explained to me that, "A deal on goods tariffs alone is worth very little... it is the non-tariff barriers – state aids, rules of origin, and quotas, for example – that are everything now."

“The world currently has essentially two standards regulatory regimes, American and European,” Cahn said. “The UK is delusional if it thinks it can go it alone and have a UK standards regime. It will have to cleave to one or the other.”

Either way, as Kerr put it, in reference to the potential new trade border down the Irish Sea: “The Prime Minister is very good at selling surrender as triumph.”