

5 things to watch in UK-US trade talks

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The U.K. and U.S. will launch trade talks on Tuesday but they carry high risks for British Prime Minister Boris Johnson, who is under heavy pressure not to buckle to U.S. President Donald Trump's demands on food standards and health.

Washington and London are already major trade partners. Britain is America's fifth export destination and the U.S. is easily the U.K.'s biggest single export market.

A deal with the United States was long viewed as a Holy Grail by British politicians who wanted to pull the U.K. out of the European Union and deepen ties with the global Anglosphere.

That made the deal a highly sensitive political football. U.S. President Barack Obama warned in April 2016 (before Britain's vote to leave the EU) that London would be at the back of the queue for a trade deal, while the Trump administration changed tack and said Britain would be at the front.

Being at the front of the queue, however, has its own problems because Britain is simultaneously negotiating its future terms of trade with the EU, which it left in February. Brussels will seek to put more onerous terms of trade on the U.K. if Johnson is seen as making a strategic shift to U.S. goods and standards in its economic ecosystem.

There is also the domestic risk to Johnson posed by the massive U.S. agricultural industry and Washington's threat to Britain's hallowed National Health Service, and notably the way drugs are priced.

Here are five key areas to keep an eye on:

1. Is it actually worth it?

The U.S. and U.K. already have close to tariff-free trade for their major exports, so any economic wins from the agreement will be small.

Britain's own assessment is that the deal's long-term boost to the economy will likely remain below 0.1 percent.

Experts contacted by POLITICO thought the deal's benefits would largely be symbolic. "President Trump is known to like a deal for the deal's sake, even if there is not much trade actually resulting from it," said Chad Bown from the Peterson Institute for International Economics.

Bown cautioned that with the COVID-19 crisis taking center stage, “it is hard to see them making much progress on a substantive trade agreement anytime soon.”

Marta Bengoa from the City College New York said the main gains from a deal would likely be focused on trade in digital services and cross-border data flows, which the U.S. and Britain want to liberalize.

Simon Lester from the CATO institute said: “I don’t take economic modelling of trade agreements too seriously, but the numbers I’ve seen for the economic benefits of a U.S.-U.K. free-trade agreement are pretty low,” he said. “My best guess is that perhaps we get some sort of ‘Phase 1’ deal, like we saw with China and Japan, which addresses a handful of issues and leaves the big ones for a later date.”

2. Agriculture

Britain hopes to win lower tariffs on its agricultural exports to the U.S. — noting that import levies can be as high as 17.6 percent on products like cheddar cheese. But a bigger row is brewing on U.S. imports to the U.K., with Washington pushing to reduce restrictions on chemically-rinsed chicken, genetically modified crops and hormone-treated beef.

Farmers and standards campaigners are concerned that Britain will allow the import of cheap animal products that are produced to lower standards than can legally be made at home — thereby undercutting the British agriculture.

The U.K. National Farmers' Union director of EU exit and international trade Nick von Westenholz said he hoped a U.S. deal would “provide one of many opportunities for British farmers to sell more great British food overseas, but British farmers need to know that their businesses won’t be undercut by sub-standard food imports, and the British public need assurance that the food they buy has been produced to those same high standards, regardless of where it has come from.”

Britain's Department for International Trade insists any deal with the U.S. will “not compromise on our high environmental protection, animal welfare and food standards.” But it has not ruled out allowing imports of genetically modified food.

3. Financial Services

Britain is hoping for a comprehensive chapter on services, and is looking to its powerful financial sector.

But Sam Lowe, a senior research fellow at the Centre for European Reform, noted that Britain would struggle to get anything significant from the U.S. on financial services, as Washington does not historically address financial regulation in its trade agreements. However a deal could lead to closer working on financial services regulation in future, he added.

Britain also wants the U.S. to become a market for its digital industries, covering things like blockchain technology, driverless cars and quantum technology.

But Harry Broadman, a former U.S. trade negotiator, said the “bilateral asymmetry” between the two sides might make digital liberalization difficult. The most “immediate irritant,” he argued, is the British plan for a unilateral tax on tech giants, which the U.S. is not happy about.

Elsewhere, the U.K. has said boosting business travel will be a priority, as well as the recognition of professional qualifications.

4. Health care

If you thought food was politically sensitive, wait until the talks get to health care.

After last year insisting that Britain's public health service would “absolutely” be “on the table,” Trump rowed back saying that he did not consider the National Health Service itself as being “part of trade.”

However, the U.S. Trade Representative’s negotiating objectives for a trade deal with the U.K. make it clear that Washington has set its sights on Britain’s “reimbursement regime,” in an effort to get the U.K. state to pay higher prices for U.S. medicines.

The U.S. pharmaceutical industry has asked USTR to insist on changes to the U.K.’s Health Technology Assessment system. Under that system, known as NICE in Britain, a panel of experts evaluates the effectiveness of drugs before deciding how much the NHS will pay for them. U.S. companies want to put their own representatives on such panels.

The aim of such Health Technology Assessments is to avoid overpaying for drugs.

That practice has roiled pharmaceutical companies, not just because it means they have sold fewer expensive drugs in Britain, but also because many other countries have either copied the U.K. or directly rely on Britain’s assessments for their own decisions on state-financed drug reimbursements.

In a submission to USTR on the U.K. deal, American drugs lobby PhRMA took aim at the process, referencing precedents in trade deals agreed with Mexico, Canada and South Korea on drug pricing.

David Henig, director of the U.K. Trade Policy Project at the think tank ECIPE, said the U.S. Trade Department would “like the NHS to pay more for U.S. produced drugs.”

5. Cars

Britain hopes that a deal could see both sides cutting car tariffs to zero — which could help U.K.-based producers of cars and car parts.

But if there's one thing Trump cares about in trade, it's cars. His fixation with the fact that Americans seem to prefer German luxury brands over U.S. classics led him to order the U.S. commerce department to write a report on how European cars were a threat to U.S. national security, justifying tariffs.

Britain is also in the crosshairs. U.S. Treasury Secretary Steven Mnuchin in January raised the threat of tariffs on U.K. cars in after Britain vowed to proceed with a digital services tax that would hit U.S. tech giants. If officials “just arbitrarily put taxes on our digital companies, we’ll consider arbitrarily putting taxes on car companies,” Mnuchin said.

Trump seems to view British car brands as less of a threat, at least he hasn't slammed them publicly as he has Mercedes and BMW. So that could help U.K. negotiators.

But if Trump finds out that Bentley is owned by Volkswagen, and that a Mini is essentially a BMW, that won't go down well.