

# AMERICAN ACTION FORUM

## Renewing the Case for a U.S.-UK Free Trade Agreement

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### Executive Summary

- British Prime Minister Rishi Sunak is in Washington, D.C. this week to meet with President Biden, Congress, and business groups to discuss a variety of economic and security issues; this visit provides a crucial opportunity to discuss a bilateral free trade agreement.
- A U.S.-UK free trade agreement would grow both economies and ease trade by reducing and eliminating regulatory barriers.
- Free trade agreements, especially among close allies, are a proven tool for building resilient supply chains.

### Introduction

On June 7, British Prime Minister Rishi Sunak will arrive in Washington, D.C. for meetings with President Biden, Congress, and members of the U.S. business community. The White House describes the visit as an opportunity to discuss Ukraine, energy security, and developments in Northern Ireland. Reportedly, the United Kingdom (UK) has given up hope in restarting talks for a bilateral free trade agreement, talks which fizzled out in 2021 when President Biden took office.

This visit could serve as an opportunity to reignite trade talks between the United States and the UK, one of our nation's closest allies. A U.S.-UK free trade agreement (FTA) would grow both economies and ease trade by reducing and eliminating regulatory barriers. Moreover, free trade agreements generally have proven to strengthen supply chains in a pro-market way.

### Background

The United Kingdom left the European Union (EU) in 2020 after citizens voted in favor of “Brexit” in 2016. This exit also included UK's departure from the EU's single-market and customs union, which had previously prevented the UK from signing its own trade agreements. The UK has trade agreements with 71 countries, many of which are called “rollover” agreements

because they simply carried over the previous economic relationships the UK enjoyed with countries that had agreements with the EU. Trade agreements with Australia and New Zealand are entirely new for the UK, but some argue that the agreement with Japan is a rollover agreement. In March, the UK also announced an agreement to become the first country to accede to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

Most expected a simple road to a trade agreement between the United States and UK, as the countries are close allies. In October 2018, the Trump Administration notified Congress of its intent to negotiate a free trade agreement with the UK. At the time, Trade Promotion Authority (TPA) was still in effect, which would have allowed for expedited consideration of the agreement in Congress. The Office of the United States Trade Representative released negotiating objectives in February 2019 and five negotiating rounds were held between the two countries in 2020. These negotiations did not result in a final agreement for the president to sign.

President Biden took office in early 2021 and the administration had a clear policy position that it would not seek new trade agreements “before the U.S. makes major investments in American workers and our infrastructure.” Then, in July, TPA expired and an FTA with the United Kingdom went from a top priority for the United States to not a priority at all. In lieu of broader negotiations, the UK has signed memorandums of understanding (MOUs) with three U.S. states: Indiana, North Carolina, and South Carolina. While these MOUs lack enforcement mechanisms and are not legally binding, they encourage bilateral investment and market cooperation in climate emissions and technology, underinvested sectors, and public procurement.

The Biden Administration’s aversion to free trade agreements has largely persisted. U.S. Trade Representative Katherine Tai has repeatedly called free trade agreements “20th century tools” and has yet to develop comprehensive trade agreements throughout her tenure. Despite this, the Biden Administration signed the New Atlantic Charter with the UK in June 2021, which signaled the two nations’ desire to promote “economic advancements and the dignity of work” and “open and fair trade between nations.” The inclusion of this pillar and the creation of the U.S.-UK Dialogue on the Future of Atlantic Trade renewed transatlantic hopes for a free trade agreement.

The Biden Administration has also shown reluctance to begin negotiations of a trade agreement until trade issues in Northern Ireland – one of four member states within the UK – are resolved. Brexit reignited complications at the shared Irish border, between post-Brexit Northern Ireland and the EU-member state of the Republic of Ireland. After the UK and the EU tentatively agreed to a resolution in the Windsor Framework, President Biden remarked that he was “confident the people and businesses of Northern Ireland will be able to take full advantage of the economic opportunities created by this stability and certainty, and the US stands ready to support the region’s vast economic potential.” A spokesman for the National Security Council additionally stated that the agreement “will help improve the prosperity of both the EU and the UK, and will open up all kind of new avenues for trade that were somewhat at risk.”

## **Bilateral Trade by the Numbers**

The UK was the seventh-largest goods export market for the United States in 2022, with the top product categories including oils and fuels (\$20.24 billion), metals (\$10.49 billion), aircraft (\$8.12 billion), machinery (\$5.77 billion) and pharmaceuticals (\$5.63 billion). Roughly 12 percent of goods exports from the UK are sent to the United States, making it the country's largest export destination. The top exports are machinery (\$12.11 billion), vehicles (\$8.69 billion), pharmaceuticals (\$6.40 billion), medical supplies (\$4.31 billion), and electronics (\$4.02 billion).

In 2021, the UK was the United States' largest partner in services trade. U.S. service exports to the UK were valued at \$67.8 billion. U.S. imports of services from the UK were worth \$61.1 billion, resulting in a total services trade of \$128.8 billion. Financial services, travel, professional management, and intellectual property were the top services traded bilaterally. In 2021, the stock of foreign investment by British firms in the United States was valued at more than \$570 billion, while U.S. investment in the UK was valued at roughly \$840 billion.

## **Economic Impact of a U.S.-UK FTA**

A trade agreement between the United States and the UK would deepen trade ties across the Atlantic. Generally, Americans and Brits pay most-favored nation (MFN) tariff rates to buy from each other. In 2020, the U.S. average MFN rate was 3.5 percent, and the UK average MFN rate was 4.3 percent. These rates are relatively low; however, high tariffs in certain sectors, as well as non-tariff barriers (such as regulations), significantly increase the cost of bilateral trade. According to Scott Lincicome and Gabriella Beaumont-Smith of the Cato Institute, U.S. barriers on baby formula subject "most infant-formula imports to an effective tax of more than 25%" and U.S. Food and Drug Administration regulations "further discourage imports." High tariffs and regulations such as these end up effectively cutting off trade of specific products.

The UK's Department of International Trade estimated that such a U.S.-UK trade agreement would lead to significant bilateral growth. In one scenario in which a trade agreement would consist of "substantial tariff liberalization" and a 25 percent reduction in non-tariff barriers, UK exports to the United States would increase 4.3 percent, while U.S. exports to the UK would increase 4.1 percent. In another scenario in which a trade agreement includes full tariff liberalization and a 50 percent reduction in non-tariff barriers, UK exports to the United States would increase by 7.7 percent and U.S. exports to the UK would increase by 8.6 percent. In the two trade agreement models, U.S. gross domestic product (GDP) is predicted to rise by roughly \$4 billion and \$9 billion, respectively. UK GDP is estimated to increase by nearly \$2 billion and \$4 billion, respectively.

Free trade agreements are a proven tool for building resilient regional supply chains. A U.S.-UK trade agreement would likely impact global goods, services, and capital flows as the two economies represent more than 17 percent of global economic activity. While the Department of International Trade's study does not explicitly examine the impact of a bilateral FTA on trade with China, models of the impacts of other prospective trade agreements show that FTAs cause trade diversion out of China. For example, a U.S.-Taiwan FTA would decrease total trade and GDP for China. It would specifically decrease trade between the United States and China, as well as between Taiwan and China. When adding in the UK's CPTPP ascension, it is likely that similar trade diversion would occur with a U.S.-UK FTA.

### **Congress on a US-UK FTA**

There is bipartisan support in Congress for an FTA with the UK. In the House of Representatives, there is an active bipartisan Congressional UK Caucus with 27 members. In March 2023, Senators Chris Coons (D-DE) and John Thune (R-SD) introduced the Undertaking Negotiations on Investment and Trade for Economic Dynamism (UNITED) Act, which would give the president TPA for a trade agreement with the UK. Representatives Adrian Smith (R-NE) and Jim Himes (D-CT) introduced a House companion to the UNITED Act in May 2023.

Advancing new trade agreements requires cooperation between Congress and the executive branch because cutting tariffs, as well as many non-tariff barriers, requires Congress to amend U.S. law. Since 1933, Congress has given every president except Richard Nixon some form of TPA. Such authority streamlines the process for negotiating trade agreements by ensuring there aren't too many negotiators at the table, while also putting requirements on the executive for consultation with Congress. In recent years, the president has been given blanket TPA to negotiate any agreement that fits within the negotiating parameters. The UNITED Act would differ in that it would only give the executive this expedited authority for a specific agreement.

Country-specific TPA could create buy-in from Congress before the administration begins negotiations, rather than waiting for Congress to weigh in after an agreement is completed. Negotiating the Trans-Pacific Partnership under TPA didn't guarantee its passage and in fact many in Congress ended up opposing the agreement. A UK-specific TPA wouldn't require the Biden Administration to negotiate an FTA with the country, but it would send a clear signal to the administration that this is where Congress thinks the Office of the U.S. Trade Representative should focus its resources.

[1] Steve Claggett was an intern at American Action Forum during the Spring 2023 semester.

[2] <https://ukandeu.ac.uk/trade-tracker-uk-trade-deals/>

[3] <https://www.reuters.com/article/us-usa-biden-yellen-trade/domestic-investment-needed-before-new-trade-deals-u-s-treasury-pick-yellen-idUSKBN29Q2RZ>

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