



# Balanced approach needed to UK-US trade agreement



by James Bacchus

President Donald Trump has put Britain where it belongs – at the front of the line for new free trade agreements (FTA) with the United States. The United Kingdom has long stood side by side with America in the defence and in the advance of shared values of human freedom. The British people should never be at the “back of the queue” for America.



Trump says a US-UK FTA will be concluded “very quickly.” Prime Minister Theresa May says she welcomes his “enthusiasm and energy” for such a deal between the two countries. But how soon is “very quickly”? And what would such a deal include?

As May has acknowledged, legally, the UK cannot start formal negotiations with the US until it leaves the European Union – at the earliest, two years from now, in March 2019. All the same, she adds, “scoping discussions” can begin straightaway. Indeed, in theory, the US and the UK could use the next two years, informally, to reach the broad terms of a deal, and then agree for-

mally and sign it soon after Brexit.

Even then, it could take some time to enter into force. US law requires the President to give the Congress 90 days’ notice before signing a trade pact, and, once it is signed, Congress will have to approve any changes in law needed to give the pact effect. This approval is far from automatic. The FTA between the US and South Korea took only 13 months to negotiate – but another four years to get Congressional approval.

## Concessions

The challenge for both countries in striking such a deal will be securing the right balance of mutually attractive trade concessions. As members of the World Trade Organisation (WTO), the US and the UK can conclude an FTA consistent with WTO rules only if it covers “substantially all the trade” in products between the two countries. No one in the WTO really knows what this phrase means – or wants to



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know. The US and the UK will not want to find out.

At the same time, the extent of the trade that is covered by a US-UK deal must not be so broad and far-reaching that the deal sinks beneath its own weight politically in Congress and the Parliament respectively. Neither country will want their bilateral deal to suffer the same fate as the much-ballyhooed but now moribund Trans-Atlantic Trade and Investment Partnership.

Eliminating tariffs is always worthwhile. But simply eliminating tariffs will produce little economic result. Duties between the two countries are already low. US-UK tariffs on manufactured goods average about two per cent.

## Recognition

By far the more important bilateral negotiations will be about rules and regulations, about establishing mutual recognition and mutual standards for traded products, and about ending the use of regulatory hurdles as non-tariff barriers to trade.

Already, many UK interests are fearful of weakened national regulations assailed by an onslaught of enhanced market access for US goods and services. The list of their fears is long and includes:

- Beef treated with growth hormones
- Genetically-modified foods
- More intellectual property rights for US pharmaceuticals
- Higher regulatory barriers to generic drugs
- Crowding out by US fossil-fuel energy companies of UK renewable energy
- Revision of agricultural subsidies and of tariff-rate quotas on sensitive UK farm products
- Reduction in state support for UK steel producers
- And even the unfounded apprehension

that a trade deal with the US will somehow lead to an American takeover of the UK National Health Service.

## Access

At the same time, there seems, at the outset, more enthusiasm for a US-UK FTA among American politicians than among American businesses. At least for now, more US companies seem to be threatening to leave the UK for the European continent as a means of retaining access to the EU single market than are urging the Congress to conclude a separate trade deal with the UK.

Although the UK is the sixth-largest trading partner of the US, the UK market is much less important to the US than is the US market to the UK. Five per cent of US trade is with the UK. Twenty percent of UK trade is with the US. What would most drive up interest among US businesses in an FTA with the UK would be the prospect of more market access resulting from agreement on some of the very issues that are already raising fears in the UK.

## Balanced

Thus, there is the need to devise a balanced approach from the start. Aspire to cover too much, and the deal may well topple politically. Try to cover too little, and the deal may not be a ‘free trade agreement’ that would be legal under WTO rules. Without the right strategy, even at the front of the line, there may be a long wait.

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