On the Rebound:
Prospects for a US-UK Free Trade Agreement

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Abstract

This paper, the third in a series exploring the impact of Brexit on British businesses, examines the prospects for, and potential impact of, a free trade agreement between the US and the UK. The research is based primarily on interviews with senior government officials, economists and trade experts, plus a range of companies and trade associations from the UK, US and Europe. We discuss the key potential upsides, possible risks and principal negotiating issues from both US and UK perspectives. We conclude that it is highly unlikely that a free trade deal between the US and the UK will be secured in the near term and that the likely potential benefits for British businesses are less than often suggested.

Acknowledgements

We would like to thank the government representatives, trade experts, companies and trade associations we interviewed for making the time to share their perspectives with us. Some of those we interviewed are listed in Appendix 1. We would also like to thank the Members of Parliament who helped us identify companies to interview, and the individuals from various academic institutions and think tanks who gave us their insights. Finally, we would like to thank those who took the time to review the draft report and provide us with comments. The authors take full responsibility for the content and conclusions of this report, including any errors and omissions.

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Executive Summary

Introduction

The prospects and potential impact of a free trade agreement (an "FTA") have attracted considerable press and political attention in the United Kingdom ("UK") since before the referendum on Brexit, but much less so in the United States ("US"). Is such a trade deal likely to happen? What would be the potential benefits on both sides of the Atlantic? These are the questions this research paper, the third in a series on the implications of Brexit for British business, sets out to answer.

In the UK, the opportunity to negotiate an FTA with the US has been consistently put forward as one of the principal advantages of Brexit from the beginning of the referendum campaign.[1] Throughout the nearly two years that has passed since the referendum, the British Government ("the Government") has continued to promote the prospect of a US-UK FTA as one of the key benefits of leaving the European Union ("EU") and, specifically, of freeing the UK from the constraints of the EU Customs Union. For example, in a speech to Parliament on January 25th 2017, Prime Minister Theresa May highlighted that the UK was looking for a US-UK trade deal that "improves trade between our two countries that will bring prosperity and growth to [Britain]".[2] More recently, in the context of the debate around whether Britain's implementation of Brexit should include exiting the Customs Union, Liam Fox, Secretary of State for International Trade, has stated that "compromising over the customs union would be unacceptable",[3] as it would "limit our ability to reach new trade agreements".[4]

In the US, there has been a shift in stance since the last presidential election. During the referendum campaign, President Obama poured cold water on the idea that a vote for Brexit would open the door to a speedy trade deal between the US and post-Brexit UK, saying Brexit would put Britain at the "back of the queue for trade talks".[5] By contrast, President Trump has expressed positive sentiments about a US-UK trade deal: "Working on major Trade Deal with the United Kingdom. Could be very big and exciting. JOBS! The E.U. is very protectionist with the U.S. STOP!"[6]

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[1] Boris Johnson, '*The liberal cosmopolitan case to Vote Leave*' speech, 9 May 2016

[2] Reuters, *Any UK-U.S. trade deal will put Britain first: PM May*, 25 January 2016

[3] The Express, *'Will NOT accept ANY customs union!' Liam Fox BLASTS Remainers' attempt to thwart Brexit*, 1 May 2018

[4] The Express, *'It's a pipe dream!' Expert's SHOCK claim leaving customs union WON'T secure trade deals*, 28 February 2018

[5] Guardian, *Barack Obama: Brexit would put UK 'back of the queue' for trade talks*, 22 April 2016

[6] Donald Trump (@therealdonaldtrump), *Twitter*, 25 July 2017

The purpose of this research paper is to attempt to cut through the rhetoric on both sides of the Atlantic to examine whether a US-UK FTA is likely to happen and what the potential benefits might be for both countries. The research is based on interviews with senior officials in the US, UK and EU, companies that might benefit from an FTA, and a wide range of trade, academic, and sectoral experts, plus a review of existing literature on the topic.

Summary of Findings

Here we summarise the key findings from our research.

Finding 1: The UK needs a deal, but it is unclear how committed the US is

Ever since the Brexit referendum, the Government has positioned the opportunity to negotiate an FTA with the US as one of the significant upsides of leaving the EU and also a key reason why Brexit must include departure from the Customs Union. The rhetoric of "Global Britain", and the underlying argument that Brexit will enable the UK to exploit new free trade opportunities, rely on the potential to negotiate an FTA with the US. Roughly half of Britain's exports to the countries outside the EU and the EU's existing FTAs, go to the US, dwarfing the importance of any other individual market. Failure to deliver such a deal would likely be seen as a significant political setback.

In contrast, and despite Trump's initially positive signals, the current US administration's level of interest in negotiating an FTA with the UK remains unclear at best. Ultimately, the UK is a relatively small trading partner for the US, at least for goods, and the Trump Administration appears more focused on "levelling the playing field" in existing major trade agreements such as NAFTA, or with its bigger trade partners, such as China. Moreover, Trump's "mercantilist" approach raises questions about US enthusiasm for negotiating any trade deal, unless such a deal is demonstrably to the advantage of US companies.

Senior UK Government Official: "Although President Trump is saying 'just do this deal now' there may very likely be a situation where the Americans decide it's just not worth it. The UK market is not big enough, and they have other things to prioritise."

Senior Official in the European Commission: "The UK desperately needs this deal, but the US couldn't care less. The Brexiteers need a political win at the moment."

Senior US Government Official: "The US does not face any kind of pressure. It would be nice for Trump if he could deliver a bilateral deal but that is nothing compared to the political pressure that British government officials are feeling."

Finding 2: There is a clear power imbalance between the US and UK

Any trade negotiation between the US and the UK would be shaped by the power imbalance between the two parties to the negotiation. This imbalance derives from two key differences: the relative size of the US and UK economies; and the relative institutional experience and capacity in conducting trade negotiations. The UK economy is one fifth the size of the US economy and, once the UK leaves the EU, Britain will no longer be a door to Europe for American business.[7] Exacerbating the difference in scale, the UK lacks institutional capacity and experience in trade negotiations, not least because the UK's trade relationships have been negotiated through the EU for the last several decades. Many of those we interviewed questioned how the UK's relatively inexperienced negotiators in the newly formed Department of International Trade ("DIT"), already disadvantaged by relative scale and by their need to secure a deal, would fare against US Trade Representative Lighthizer's 'sharks'.[8]

Nikhil Datta, Center for Economic Policy, London School of Economics: "The EU and US economy are the same size, they are both about 20 trillion dollars, but the UK is 2-3 trillion. This puts the UK in a terrible bargaining position."

Professor Dennis Novy, University of Warwick: "The US would likely make the UK a 'take it or leave it' offer. A deal would probably be negotiated and the UK probably can get their way in some respects, but overwhelmingly it will be a deal that the US wants, not the deal the UK wants."

Finding 3: The UK must strike a deal with the EU before it can negotiate an FTA with the US

Since most components of a potential US-UK trade deal are dependent on the terms of the future trading relationship between the UK and the EU, current discussions between UK and US officials can only be of an exploratory nature. Until it is clear to what extent the UK will adhere to EU regulations, and the terms of the UK's involvement with the Customs Union and thus the Common External Tariff ("CET"), it is impossible for serious negotiations on a US-UK FTA to take place. This has significant implications for the potential timeframe for such a deal. In addition to the time it will take to agree a UK-EU deal, which will likely take at least two to three years, the US takes on average 45 months to negotiate bilateral trade agreements. Even assuming some ability for discussions to proceed in parallel, an FTA between the US and the UK is not a near-term prospect.

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[7] The size of the US is approximately 19.4 trillion dollars, when compared the UK which is 3 trillion dollars. For reference the combined EU economy is 21 trillion dollars.

[8] Reference used in an interview by a Senior Official in the European Commission

Senior USTR Official: "By far the biggest challenge is that a US-UK deal is highly interwoven with the UK-EU relationship."

Senior Official at the European Commission: "There is so much uncertainty with the UK and EU relationship at the moment that nothing is clear. In practice, a US-UK deal would be happening in parallel to, but officially after, a UK-EU negotiation. However, in reality, the UK-EU negotiation leaves the terms for a UK-US deal too broad and speculative."

Finding 4: The UK will have little to gain and will have to concede more on tariff reductions than the EU offered in the Transatlantic Trade and Investment Partnership ("TTIP")

Tariffs between the US and EU (including the UK) are already relatively low, averaging under 3% in most sectors,[9] so there are relatively limited benefits from further reductions. On average, existing EU (and thus UK) tariffs are higher than current US tariffs, so the UK will have more to give. For example, EU tariffs on imports of automobiles are 10%, while the corresponding tariffs for EU automobiles imported into the US are 2.5%.[10] Leaked documents from the TTIP negotiations suggested that EU had agreed to remove up to 97.5% of existing tariffs while the US offered an 87.5% reduction of tariffs in return.[11] The US will expect the UK to concede more on tariffs than the EU given the smaller scale of opportunity the UK market offers. For the US, removing or sharply reducing tariffs on agricultural products will be a key objective. However, while consumers would certainly see lower prices, opening the UK market to much cheaper US food, produced under what are perceived to be lower health and environmental standards, could destroy large parts of British farming and face intense consumer resistance. The US would also be keen to see auto and chemical tariffs removed, which would have significant knock-on implications since most British companies in these sectors operate as part of integrated pan-European supply chains and the EU would not want to see a US-UK FTA undermining the CET.

Senior US Diplomat: "The US will squeeze the UK on tariffs much farther than they are probably willing to go, but not necessarily as hard on regulatory sectoral annexes."

A Senior Board Member at the Food Standards Agency: "Those of us in agriculture feel vulnerable that we will be sacrificed in exchange for a better deal in services. DEFRA is filled with rabid free traders who will sell us aspects of a better deal that will hurt agriculture."

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[9] European Commission, *United States: Trade Picture*, 16 April 2018

[10] CNBC, *Trump's tariff threat on European cars could spell big trouble for Germany*, 5 March 2018

[11] Von Daniels and Orosz, *TTIP: Secret document reveals EU offer to drop 97 percent of tariffs*, 22 February 2016

Finding 5: The US demands on non-tariff and regulatory issues will be politically contentious and difficult for the UK to meet

With TTIP, the US and EU sought to construct a highly ambitious trade deal that went significantly beyond tariff reductions to achieve greater harmonisation of regulations and standards for both goods and services. Ultimately, it was these aspects of the negotiations that ended up stalling the process. US officials believe such non-tariff negotiations will be much easier to win when negotiating with the UK alone. US 'asks' are likely to include relaxation of regulations on labelling, food safety, use of genetically-modified organisms ("GMO") and privacy protection in the digital arena, plus greater access for US healthcare providers to the UK market. Such demands will almost certainly spark strong public opposition in the UK, illustrated by the already intense concern about possible imports of "chlorine-washed chicken", and widespread hostility towards anything that is seen to undermine the universal "free at the point of access" characteristics of the NHS.

Nikhil Datta, Centre for Economic Performance - London School of Economics: "By definition, a deep trade deal means giving up certain amounts of control. Safety and the environment for example, are fundamentally different in both countries and the US isn't going to budge, especially under the current administration. Thus, the UK will have to change their standards which will be hard to pass with the populace. The question is, how much are we willing to let another government intervene?"

Senior UK Government Official: "It all goes back to the UK media commentary on chlorine-washed chicken and hormone-raised beef. I believe the controversy is as strong as it was back then. DEFRA has made it clear they will not accept a deal which lowers food standards for the sake of a deal. If you apply this logic to other sectors, I am doubtful of the ability of both governments to work through the domestic politics and challenges of this deal."

Finding 6: Negotiating non-tariff and regulatory issues will force the UK to choose between regulatory alignment with the US or EU

To negotiate beneficial reductions in non-tariff barriers through greater harmonisation of regulations and standards the UK will need to decide whether to seek closer regulatory alignment with the US versus maintaining continued alignment with the EU. The UK has already agreed to adhere to large swathes of EU regulations, partly because these regulations were often shaped by the UK and thus reflect British priorities, partly to minimise the disruption to certain sectors, and also because of commitments made on Northern Ireland. This means the scope for divergence from EU regulatory frameworks and approaches is limited.

Senior Official at the European Commission in the Directorate-General for Trade: "Most issues are "either-or" and put the UK in a corner to decide who to align with, especially when it comes to regulatory standards."

Senior US Government Trade Negotiator: "It's not just about sovereignty, UK regulation needs to stay as close to Europe as possible, this means they might keep a lot of the same regulations in place anyway, which would limit the scope of a US-UK FTA."

Finding 7: The US cannot, or will not, concede on many British non-tariff and regulatory objectives

Most of the potential upside for UK business arises in service sectors where UK institutions have particular strengths, such as education, financial services and the creative industries. The UK will therefore seek reductions in non-tariff barriers in these sectors. However, significant concessions from the US in such areas look unlikely, partly because many of the critical regulations are set at state level rather than by the federal government, and partly because of the political salience of the issues. For example, in higher education, individual states control degree certifications and bar exams. Following the financial crisis, financial services regulation in the US has been the subject of intense political debate and legislative activity; since the US was reluctant to make any concessions on regulatory harmonisation during the TTIP negotiations, when the UK was playing a leading role on the EU side, it is unclear why the US would be prepared to concede more in a purely US-UK deal with more limited upside.

Senior US Government Official: "This issue [financial services] is easier to support in theory but very hard to negotiate the details. It requires legislated cooperation between both countries' central banks and institutions; in some cases, the US federal government doesn't have the jurisdiction to take such measures, and the executive branch often has its hands tied by Congress in many of these cases."

Gary Hufbauer, Senior Fellow, Peterson Institute for International Economics: "[Financial services] was the biggest UK ask in TTIP and the US refused to even entertain talks, supposedly because of Dodd-Frank laws. It is also sensitive and divisive issue in Congress."

Conclusion: Both US and UK officials are doubtful that a meaningful deal can be reached.

Despite the enthusiasm expressed by politicians on both sides of the Atlantic, officials directly involved, and experts with experience of such negotiations, express scepticism that a deal of any significance can be achieved.

Senior UK Government Official: "Personally, I am very doubtful about the ability of both governments to work through the domestic politics and political challenges of this deal."

Senior US Trade Negotiator: "we already have a bilateral trade and investment working group with them [the UK] which means open and strong trading relations already exist, so it is unclear how much more there is realistically to gain."

Professor Larry Summers, former US Treasury Secretary: "It is delusional to think that a US-UK trade deal will happen anytime soon. It is simply not possible."

We can summarise the prospects and potential benefits of a US-UK FTA across five dimensions – strategic interest; timeline and capacity; tariffs; non-tariff barriers and regulations; and politics and negotiability – as in Table 1 below. The conclusion is clear: a US-UK FTA is only going to happen if the UK makes concessions that are unlikely to be politically acceptable and in any case, promises relatively limited upside for UK business. However, the importance of such a deal to the overall Brexit narrative (and specifically, to the case for leaving the Customs Union) means that the Government is likely to continue to behave as if negotiating an attractive deal with the US remains a realistic possibility.

Table 1: Issues Determining the Prospects and Potential Benefits of a UK-US FTA

	UK	US
Strategic Interest	Imperative to demonstrate an upside to Brexit.	Lower priority than renegotiating NAFTA and tackling China
Timeline and Capacity	Needs an early win, but can't proceed with negotiations until the EU-UK position is clear. Limited negotiating capacity.	Other priorities, and no time pressure. Significant negotiating capacity.
Tariff	Will have to make concessions and has little to gain	Will demand concessions
Non-Tariff and Regulation	Potential benefits in sectors like financial services are unlikely to be realised; concessions to US demands are politically fraught.	Will expect concessions on sectors like food, digital and healthcare. Likely to concede little.
Politics and Negotiability	Must avoid looking desperate but must also avoid acknowledging that this could be a dead end.	Holds all the cards against the US. Even so, a UK-US FTA may be difficult to deliver.

1. Methodology

Objectives

This research paper is the third in a series of papers focused on the impact of Brexit on British businesses. In the first two papers,[12] we explored the implications of Brexit for British businesses through the perspectives of the people who own and run mid-sized companies across the country. In conducting the interviews and research for these first two papers, we often heard views about the possibility of a US-UK FTA. Although many individuals across private industry, government, think tanks, and trade associations speculated about the potential benefits of such a deal, there appeared to be major gaps and inconsistencies in perceptions about what trade negotiations between a post-Brexit UK and the US might actually deliver in practice. Furthermore, as the debate on whether the UK should stay in the Customs Union has intensified, there has been greater focus on the potential for a US-UK FTA, since securing such a deal represents arguably the biggest potential prize from leaving the Customs Union. Our goal in research and writing this third paper was therefore to explore the prospects and potential benefits of a US-UK trade deal, taking account of the potential tariff and non-tariff gains and losses, issues of regulatory alignment, and considerations around negotiating capacity, sequencing and political feasibility. We sought to answer two interlinked questions: how likely is a US-UK FTA; and what benefits would such a deal have for British businesses?

Approach

Consistent with our approach in the first two papers, we focused our research on personal interviews. Throughout the entirety of the project we consulted with over 120 companies, 40 trade associations, 30 trade experts or academics, and 17 Senior US, UK and EU government officials. We spoke with high-ranking US representatives from The Office of the United States Trade Representative ("USTR"), the Department of State ("DOS"), the Department of Commerce, and the Department of Treasury. On the UK side, we interviewed high ranking civil servants in the Department for Exiting the European Union ("DExEU"), senior representatives from the Foreign and Commonwealth Office ("FCO") stationed in the US, and British officials within EU Institutions. We also spoke with senior officials from the Directorate-General for Trade in the European Commission.

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[12] Sands, Balls, Leape, Weinberg, *M-RCBG Associate Working Paper No. 77: Making Brexit Work for British Business*, June 2017; Balls, Sands, Hallam, Leape, Sethi, Weinberg, *M-RCBG Associate Working Paper No. 84: Time for Clarity: The Views of British Business on The Path to Brexit*, February 2018

We are enormously grateful to the senior government officials who took the time to speak with us anonymously. Due to the sensitive nature of their roles in the negotiations we cannot attribute quotes to these senior officials individually. A list of interviewees has been presented to John Haigh, co-director of the Mossavar-Rahmani Center for Business and Government at Harvard Kennedy School. Some of the companies and industry experts we interviewed also chose to remain anonymous. In addition to the interviews, we reviewed the constantly growing body of literature on this topic being published on both sides of the Atlantic.

Structure of the Paper

The paper begins by providing a brief overview of the context in which a US-UK trade deal is being pursued, including the current levels of trade between the UK and the US, the UK's future trade relationship with the EU, and the status of previous trade negotiations between the EU and the US, specifically TTIP. We then set out and discuss the main findings from our research about the prospects and potential impact of a US-UK trade deal.

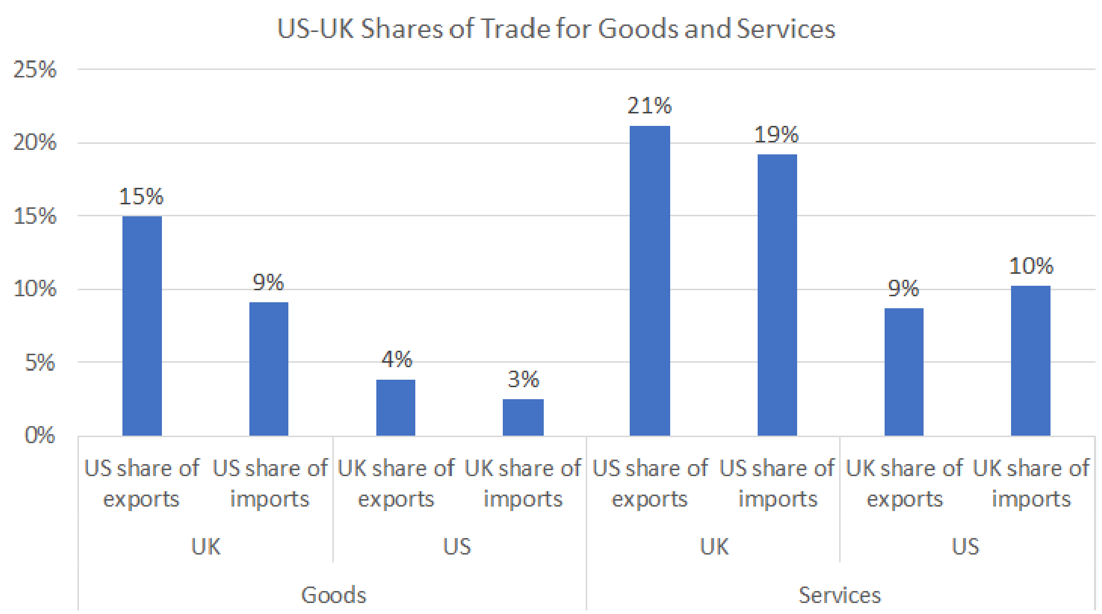
2. Context for a US-UK Negotiation

The prospects and potential impact of a successful US-UK FTA depend on a number of variables, including current levels of trade between the US and the UK, the barriers to reciprocal market access, this history of such negotiations, and the interaction with the UK's withdrawal from - and future trading relationship with - the EU.

Current Levels of Trade between the UK and US

The US and the UK have an exceptionally deep and broad economic relationship. The US is the UK's single largest trading partner (if one treats other EU Member States as individual countries) and is by far the largest trade partner with which the UK does not yet have an FTA. It should therefore not be a surprise that in the aftermath of the Brexit referendum, the Government was quick to open discussions with the US about a possible 'Brexit free-trade deal'.[13] For some who voted to leave the EU, leaving the Customs Union and thus regaining the ability to strike trade deals, would mark a return to Britain's heritage as a trading nation, a vision perhaps best captured by the Prime Minister's evocation of a more 'Global Britain'. Since an FTA with the US represents by far the biggest prize from an independent trade policy, the potential for such a deal has loomed large in the Brexit narrative, both before the referendum and ever since.

Figure 1: Share of trade for goods and services

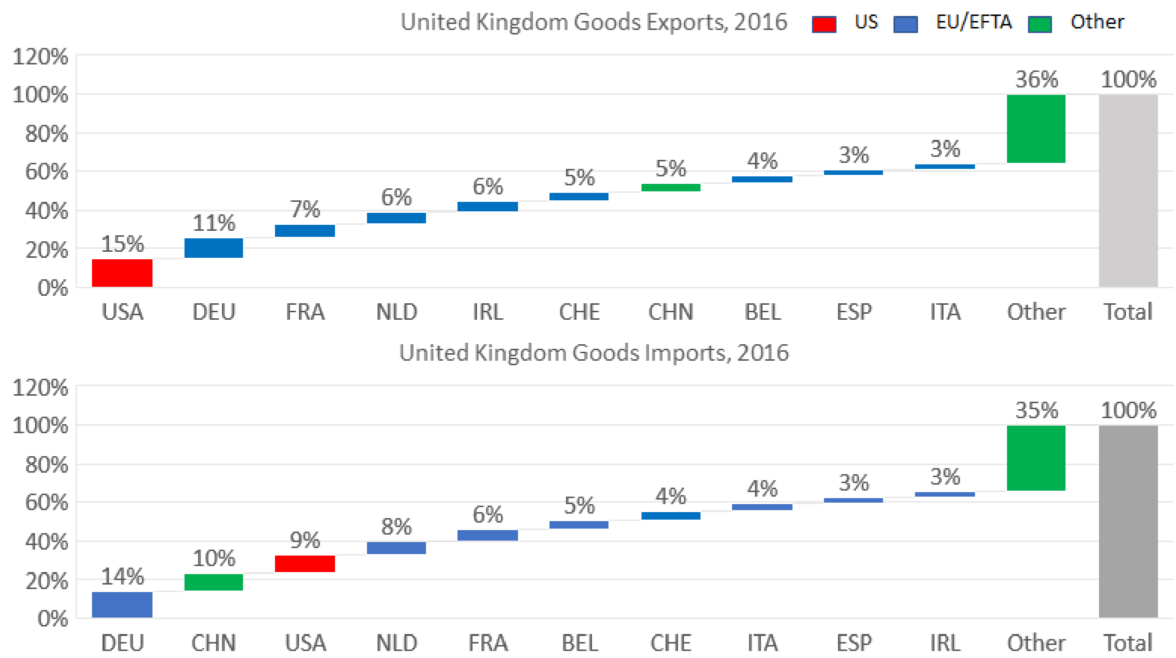


Source: MIT OEC, BEA, ONS

[13] Tim Ross, *Brexit free-trade deals planned with the USA and Australia*, The Telegraph, 16 July 2016

Overall, the US is a more important trading partner for the UK than vice versa. the US represents 15% of UK goods exports, while the UK represents only 4% of US goods exports. Similarly, the US represents 21% of UK services exports while the UK represents only 9% of total US services exports.

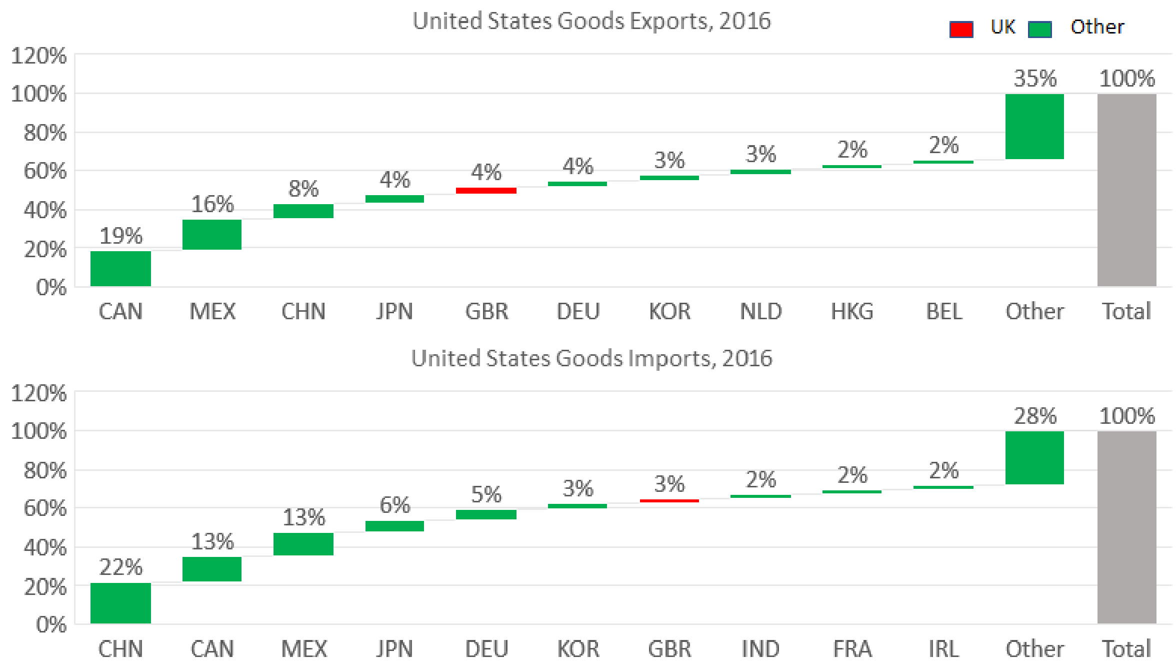
Figure 2: United Kingdom Goods Exports and Imports, 2016



Source: MIT Observatory of Economic Complexity

Figure 2 shows that the US is the UK's largest single goods export market, representing 15% of all exports at a value of around $61.5 billion. Along with China, the US is the only nation not a member of the EU or European Free Trade Area ("EFTA") to feature in the top ten largest export destinations. The US is also the third largest origin for goods imports, representing 9% of the total at a value of $57.1 billion. The US is the largest single goods trading partner with which the UK does not have a free trade agreement.

Figure 3: United States Goods Exports and Imports, 2016

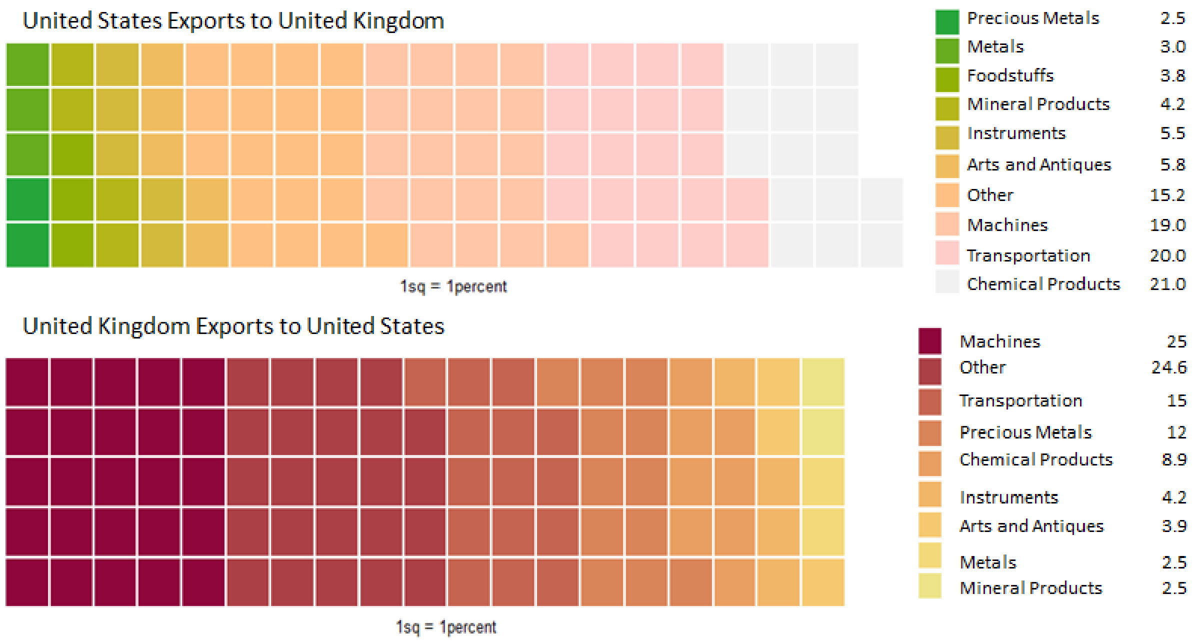


Source: MIT Observatory of Economic Complexity

Figure 3 shows that from the US perspective, the UK is the fifth largest goods export market, representing 4% of total exports at a value of $55.2 billion. The UK is the largest goods export destination in the EU for the US, ahead of Germany. The UK is also the US's seventh largest origin for imported goods, representing 3% of the total as a value of $55.1 billion.[14]

[14] *It is worth noting that there exists a discrepancy in the trade data between the US and UK, with both countries reporting trade surpluses in goods and services with the other. One possible explanation is that the US includes the channel islands in its UK trade data, which the UK excludes as they are crown dependencies.*
Valentina Romei, *US and UK Report Trade Surplus With Each other*, *The Financial Times,* 24 September 2017

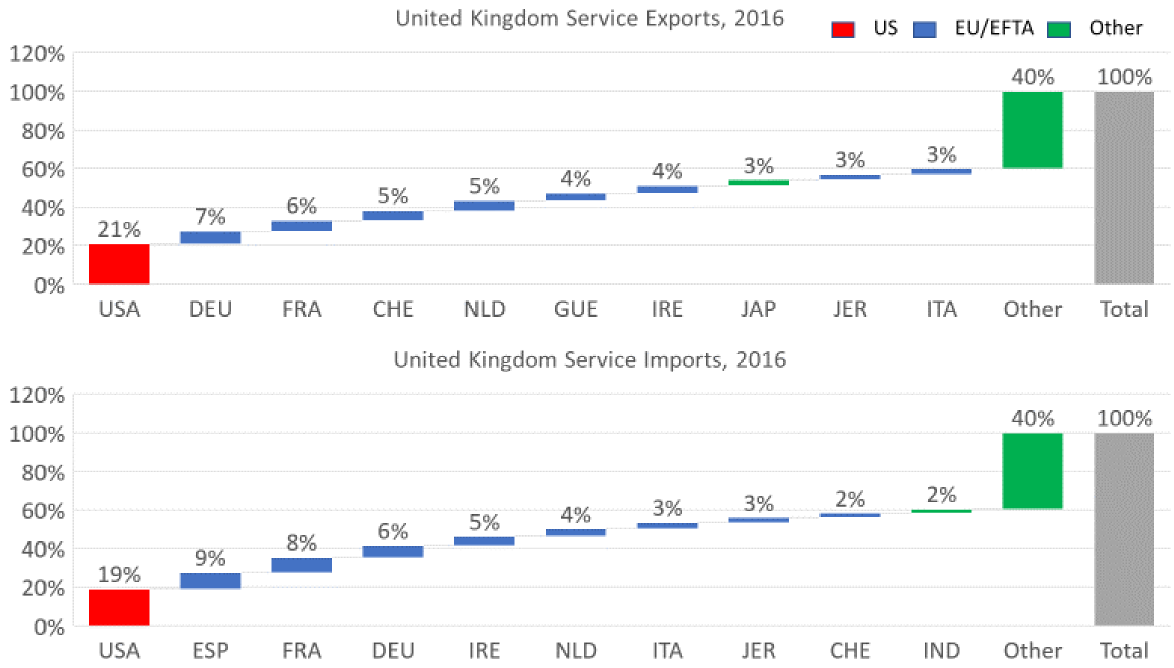
Figure 4: Breakdown of trade between UK and US, 2016



Source: MIT OEC

The US and UK trade a wide range of goods with each other, diversified across all major industries. Figure 4 shows the breakdown of this trading relationship in goods. Of the US exports to the UK, the largest single class of goods is chemical products, representing 21% of the total, followed by transportation (20%) and machines (19%). Of UK exports to the US, the single largest class of goods is machines representing 25% of the total, followed by transportation (15%) and precious metals (12%)

Figure 5: United Kingdom Services Exports and Imports, 2016



Source: Office of National Statistics, Balance of Payments, additional country data for trade in goods and services between 1999 and 2016

In 2016 total services exports from the UK to the US amounted to £52 billion[15] out of total services exports of £246 billion.[16] The US and UK are each other's largest trading partners in services. For the US, the UK is the top destination for services exports and the top origin for services imports. The same is true from a UK point of view. As Figure 5 shows, the US represented 21% of services exports and 19% of services imports in 2016. Financial services is the largest service sector being traded between the US and UK, representing around 17% of exports to the US, and about 21% of imports from the US.[17]

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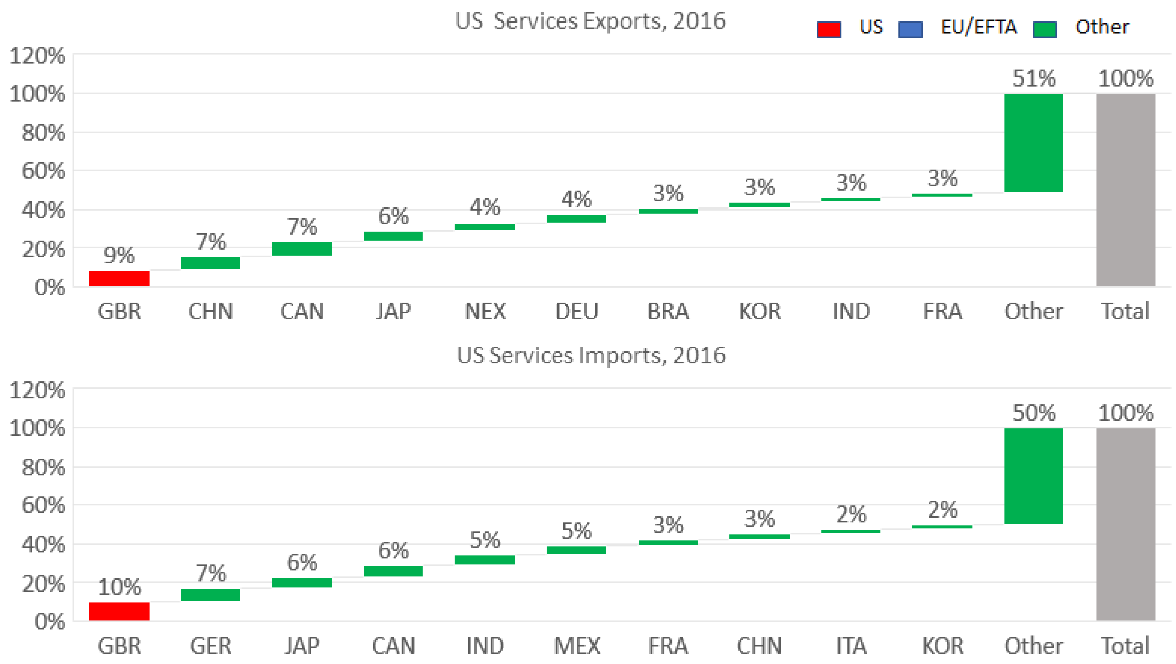
[15] MIT OEC, *Exports in Goods*, 2016

[16] Office for National Statistics, Balance of Payments, *Additional country data for trade in goods and services*, 2016

[17] US Census Bureau, *US Trade in Services with the United Kingdom*, 2016

Figure 6: United States Services Exports and Imports, 2016

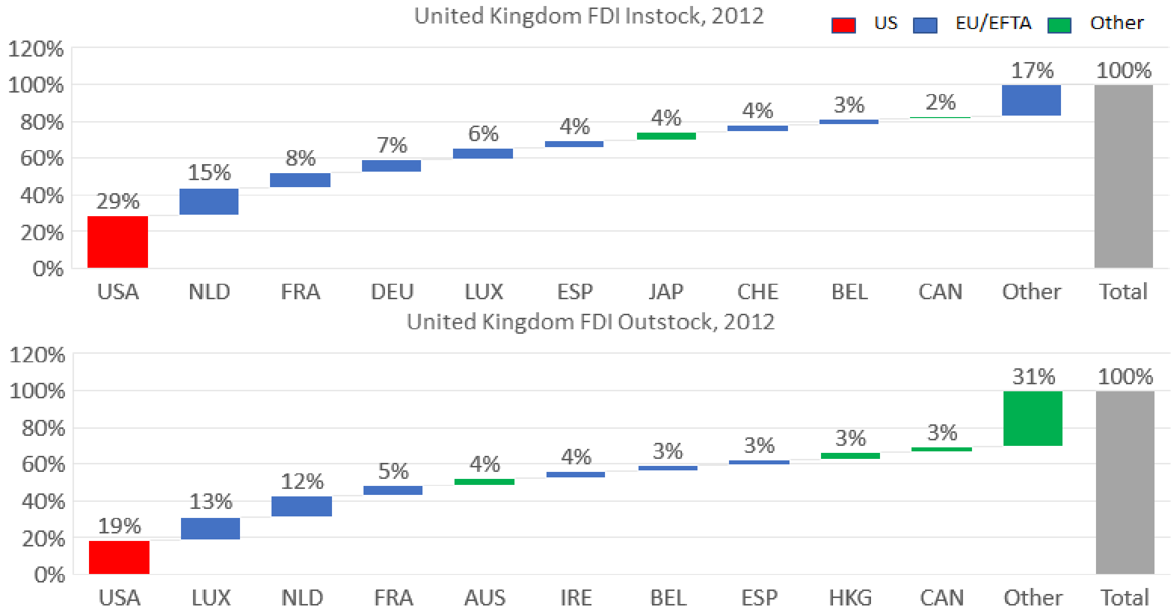


Source: Office of National Statistics, Balance of Payments, additional country data for trade in goods and services between 1999 and 2016

From the US perspective, the UK accounted for 9% of services exports, at a value of $65 billion in 2016, and 10% of services imports, at a value of $52 billion, as shown in Figure 6. Both imports and exports of services are dominated by financial services, followed by aviation services and intellectual property rents.[18]

[18] ibid.

Figure 7: United Kingdom FDI Instock and Outstock, 2012



Source: UNCTAD 2012

Figure 7 shows that the US is also the single largest source of foreign direct investment ("FDI") in Britain, and also the largest destination for British FDI.[19] The US had over $425 billion in assets in the UK in 2012, representing 29% of the total, while the UK had over $323 billion in assets in the US in 2012, representing 19% of the total.[20]

[19] Singham, S., Hewson, V., Tylecote, R., _Developing a True Transatlantic Partnership —a High Standard Trade Agreement to Propel the Global Economy_, Legatum Institute, June 2017

[20] Luxembourg and the Netherlands are the second and third largest FDI outstock destinations for the UK, though this is primarily due to tax optimisation by major corporations. One article from the Tax Justice Network reports that only 20% of Dutch FDI are "real dutch holdings" and the remainder are investments abroad owned by multinationals via Dutch holdings. Source: Shaxson, _Why the Netherlands is the world's largest source of FDI_, Tax Justice Network, 10 November 2014

Current level of tariffs and non-tariff barriers between the US and the UK

In most sectors, current most-favoured-nation ("MFN") tariffs on goods trade between the US and UK are relatively low, limiting the potential upside from an FTA. Table 2 shows EU – and, given the CET, UK tariffs versus US tariffs. EU tariffs are typically somewhat higher than US tariffs, with a simple average of 5.1% against 3.5%, and on a trade-weighted basis, 2.7% versus 2.2%.[21] Within these broad averages there are some marked differences. For example, according to the World Bank, trade-weighted tariffs for industrial goods average 1.6% for both the EU (and therefore the UK) and the US. By contrast EU agricultural tariffs are 8.5% on a trade-weighted basis, while US agricultural tariffs amount to 3.8% on the same basis. For example, EU tariffs on chocolates are 18.7%, while the US tariff is 6%. The relatively low level of tariffs across most sectors has led some to suggest the direct economic benefits from tariff reduction would be limited. However, removing tariffs would have significant benefits for specific sectors, and would also reduce distortions and administrative costs.

Table 2 – US and UK WTO Tariff Profiles (percentages)[22]

Tariff Rate	Tariff Rate UK (EU Tariff Schedule)	United States
Overall		
Simple Average MFN Applied	5.1	3.5
Trade-Weighted Average	2.7	2.2
Agriculture		
Simple Average MFN Applied	10.7	5.2
Trade-Weighted Average	8.5	3.8
Non-agriculture		
Simple Average MFN applied	4.2	3.2
Trade-Weighted Average	2.3	2.1

[21] Trade weighting for the EU as a whole, statistics taken from WTO, 2015, p.75 and p.170, cited in European Parliament, *TTIP Schedule*, 20 April 2018

[22] Source: CRS Compilation, WTO Tariff Profiles. Notes: Data for "simple average MFN applied" are from 2015, and "trade-weighted average" from 2014

Much more significant than tariffs in impeding trade, and particularly services trade, are the many non-tariff barriers that exist on both sides of the Atlantic, ranging from a multitude of regulatory differences, including local ownership rules, to public procurement procedures. Given the scale of services trade between the UK and the US, removing regulatory impediments to the provision of services, such as differences in licensing requirements, certification of qualifications, or protection of customer data, could in principle have a significant beneficial impact. However, the failure to achieve much progress on reducing non-tariff barriers to trade in services during the TTIP negotiations demonstrates how difficult this is to achieve.

The Backdrop of TTIP

The failure of TTIP sets the backdrop to the potential negotiation of a US-UK FTA. Launched in June 2013, the TTIP negotiations had the goal of agreeing a deep FTA that would liberalise a vast swathe of trade and investment activities between the US and EU. Despite the prospect of significant economic gains for both sides, negotiators struggled to overcome a raft of political and economic issues that were deeply contested by one or more of the participating nations.

A US-UK FTA negotiation would undoubtedly be simpler than TTIP for the simple reason that the UK acting alone would avoid the EU's need to accommodate the interests of 28 different countries. Moreover, some of the more contentious issues in TTIP, like "Cultural Exceptions", and "Geographic Indicators" have less resonance in the UK and may be less likely to stall a potential deal. However, many of the more fundamental issues would remain just as pertinent and potentially controversial as in TTIP. Key sticking points of TTIP included:

> **Market access**. While US and EU negotiators in TTIP moved relatively swiftly to exchange tariff offers to reduce and eliminate tariffs on most industrial goods, they opted to leave agricultural tariff issues, which were highly sensitive, until "end-game" negotiations.'[23] Negotiations on a US-UK FTA might well find agricultural tariffs similarly problematic.
>
> **Cultural exceptions**. A key issue for the French in particular, was the protection of certain culturally sensitive activities. This might be a less of an issue in a US-UK FTA than was the case in the TTIP negotiations given shared use of the English language.'[24]

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[23] Congressional Research Service, *US-UK FTA: Prospects and Issues for Congress*, 14 April 2017

[24] ibid.

Public procurement. FTAs often include rules to ensure transparent, non-discriminatory access to public procurement markets. TTIP revealed US concerns about the transparency of EU public procurement policies; and EU concerns about US restrictions on sensitive sectors, "Buy American" legislation, and access to US state-level government procurement markets.'[25] In this context, it is worth noting reports that in the upcoming renegotiations of the North American Free Trade Agreement ("NAFTA") the US proposes to cap Mexican and Canadian market access to US government contracts.[26]

Dispute settlement. The Investor State Dispute Settlement system ('ISDS"), a mechanism within the TTIP structure to enable investors and corporations to take action against countries for allegedly discriminatory practices. The ISDS proposed for TTIP became so controversial it was once described by the EU's then Trade Commissioner Malmström as "the most toxic acronym in Europe."[27] How dispute settlement would be addressed in a US-UK FTA is currently unclear.

Data privacy. During the TTIP negotiations, very different approaches to data privacy on either side of the Atlantic were exacerbated by European reactions to contemporaneous revelations around NSA surveillance activity. Whether these issues are easier to resolve in a US-UK context will depend in large part on whether the UK continues to adhere to the EU's General Data Protection Rules ("GDPR").

Regulatory and standards harmonisation. Different philosophies of regulation proved an obstacle to achieving greater harmonisation or mutual recognition of regulations and standards during the TTIP negotiations. The US refused to budge on areas like financial services, and sought to weaken the EU's emphasis on the "precautionary principle", which puts the onus on companies to ensure individuals and society are not harmed where there is a less than full scientific understanding of the effects of a product.[28] Meanwhile the EU was adamant that it was not willing to sacrifice ""safety, health, social and data protection standards or our cultural diversity".[29] Unless the UK decides to diverge substantially from EU regulatory norms, a US-UK trade deal is likely to encounter many of the same issues.

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[25] European Commission, *Report from the Commission to the Council and the European Parliament on Trade and Investment Barriers and Protectionist Trends*, for the period 1 July 2014 through 31 December 2015, 20 June 2016

[26] Politico Morning Trade, *Lightizer favors NAFTA withdrawal to force Congress' hand*, 20 April 2018

[27] Politico, *ISDS: the most toxic acronym in Europe*, 17 September 2015

[28] The Science and Environmental Health Network, 'Wingspread Conference on the Precautionary Principle', 26 January 1998: "When an activity raises threats of harm to human health or the environment, precautionary measures should be taken even if some cause and effect relationships are not fully established scientifically."

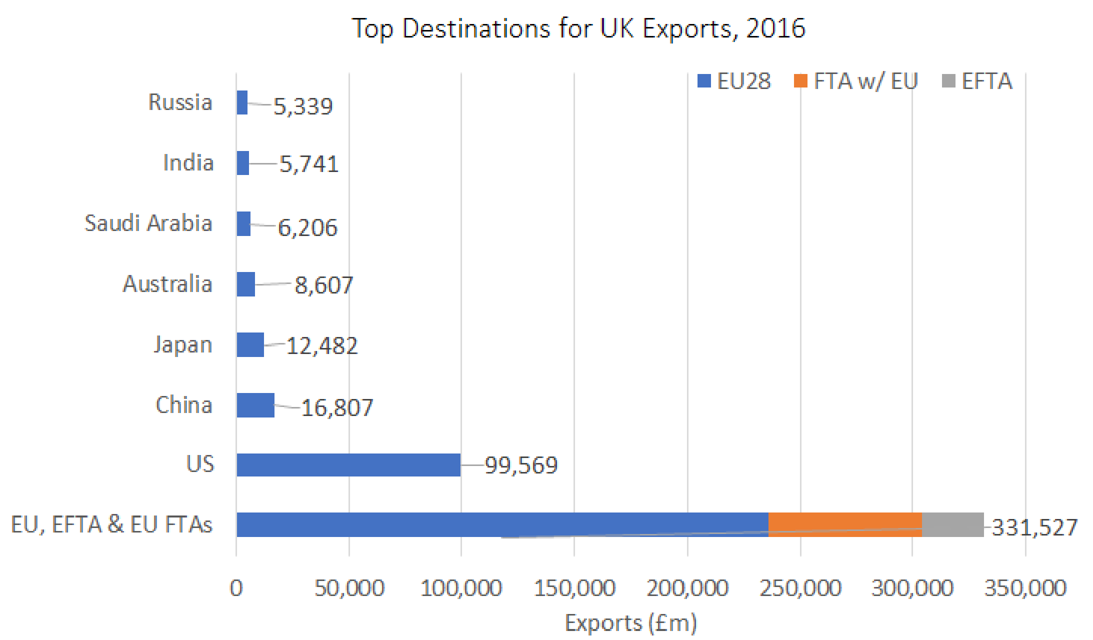
[29] Jean Claude Juncker, *A New Start for Europe: My agenda for Jobs, Growth, Fairness and Democratic Change*, European Parliamentary Plenary Session, 15 July 2014

The UK's future trading relationship with the EU

The UK's future trading relationship with the EU will be a key determinant of the potential shape of any trade deal between the UK and US. Indeed, the UK will not be able to negotiate an FTA with the US unless it leaves the Customs Union; and for this reason, the potential benefits of such a trade deal with the US is frequently used by the Government as a key reason for leaving the Customs Union.[30]

As part of the EU's Customs Union, the UK applies the CET to all imports, and participates in trade negotiations as part of the EU. In this way, it benefits from the EU's scale and thus negotiating power, but loses the ability to set its own tariffs and negotiate its own deals. Being inside the Customs Union also reduces barriers to trade with countries within the EU, since such imports and exports will not incur tariffs nor entail checks on compliance with rules of origin. Leaving the Customs Union will introduce frictions in trade with the rest of the EU, but will enable the UK to strike trade deals with the rest of the world. In considering these trade-offs, the US is disproportionately important, since UK exports to the US account for the half of UK goods and services exports that do not go to the EU or countries with which the EU has already secured an FTA.[31]

Figure 8: Top destinations for UK exports



Source: Office of National Statistics, The Pink Book 2016

[30] Policy Exchange, *The Realities of a US-UK Free Trade Agreement*, 3 February 2017

[31] Office of National Statistics, *The Pink Book 2016* (Geographic break down of current account)

Assuming the UK leaves the Customs Union, as Prime Minister May has declared,[32] the UK will seek to secure an FTA with the EU. The breadth and depth of this FTA will shape and constrain any potential deal with the US. The EU will want to ensure that the UK does not make concessions to the US that are more advantageous than those offered to the EU. The EU will also want to ensure that the UK does not become a "back door" to Europe, enabling US companies to avoid EU tariffs and regulatory restrictions. The tensions here are exemplified in the auto market. With EU tariffs on auto imports at 10% and US tariffs at 2.5%, any US-UK FTA will likely result in a sharp reduction in UK tariffs to at least the level of current US tariffs. Yet UK car manufacturers and their suppliers currently operate as seamlessly integrated players within pan-European supply chains. This will be difficult to sustain, since the EU will want to ensure that US components imported into the UK do not subsequently enter into the EU supply chain without paying the 10% tariff.

The process of defining a new tariff schedule at the WTO for the UK following its departure from the Customs Union could also complicate or delay negotiation of a US-UK deal. The process of establishing stand-alone UK market access schedules entails establishing new tariffs and sorting out issues such as the UK's share of the EU's agricultural tariff rate quotas (TRQs).

Perhaps most unpredictable is whether and how the UK can deliver on its commitments with regard to Northern Ireland. As part of the Withdrawal Agreement the Government has agreed to "remain committed to protecting North-South cooperation and to its guarantee of avoiding a hard border. Any future arrangements must be compatible with these overarching requirements."[33] The Withdrawal Agreement also promises, in the absence of agreed solutions, that "no new regulatory barriers develop between Northern Ireland and the rest of the United Kingdom, unless, consistent with the 1998 Agreement, the Northern Ireland Executive and Assembly agree that distinct arrangements are appropriate for Northern Ireland".[34] While various options have been suggested for how these commitments can be reconciled with leaving the Customs Union,[35] thus far none appears practically feasible or acceptable to the EU. It is hard to escape the conclusion that the Government's commitments on Northern Ireland require that Northern Ireland remain in the Customs Union. Yet the Government has also committed to leaving the Customs Union; and that there will be no border of any kind between Northern Ireland and the rest of the UK.

How this conundrum will be resolved remains unclear; what is clear is that serious negotiations with the US about a US-UK FTA cannot even begin until these fundamental issues about the UK's relationship with the EU are resolved.

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[32] BBC, *Brexit: Government insists UK will leave customs union*, 23 April 2018

[33] Department for Exiting the EU, *Draft Withdrawal Agreement*, 29 March 2018, Para 49

[34] ibid., Para 50

[35] The Andrew Marr Show, *David Davis: Irish border can be solved by 'a whole load of new technology'*, 25 March 2018

Existing side agreements

Although there is no FTA between the US and the EU, there are a large array of side agreements covering specific issues and regulatory cooperation in a wide range of sectors including fisheries, transport, customs, nuclear, and agriculture. The UK is party to these agreements through being a Member State and in some cases, is a separate signatory. One report estimates there are 44 such agreements with the US alone and over 750 in total.[36] The UK also has a large number of bilateral side agreements on regulatory cooperation, which sometimes refer to, or interact with, the EU side agreements.

Renegotiating these agreements will be critical to maintaining existing economic cooperation with the US, whether or not an FTA is secured. One example is the Open Skies agreement between the US and the EU, which allows British planes to fly to the US and vice versa. If the UK withdraws from the ECAA the UK's reciprocal rights with 36 other countries would need to be renegotiated. Another example is the US-Euratom nuclear accord which enables the UK to import spare parts for its nuclear power stations. Such US-EU side agreements are maintained and developed under the oversight of the Transatlantic Economic Council.[37] Following Brexit, the UK will no longer be party to this Council.[38] Quite apart from the sheer workload of renegotiating so many, and often highly technical agreements, there is a risk for the UK that the US will seek this opportunity to change the balance of advantage in these agreements, or that those that require Congressional approval get derailed by domestic politics.

[36] Paul McClean, *After Brexit the UK will need to renegotiate 759 treaties*, The Financial Times, 30 May 2017

[37] European Commission, Transatlantic Economic Council: Cooperation on Innovation and Growth, 30 November 2016

[38] ibid.

3. Findings

Finding 1: UK needs a deal, but it is unclear how committed the US is

The UK needs a deal

Ever since the Brexit referendum, the Government has positioned the potential to negotiate an FTA with the US as one of the key upsides from leaving the EU and also a key reason why Brexit must include departure from the Customs Union. The "Global Britain" slogan, and the underlying argument that Brexit will enable the UK to exploit new free trade opportunities, rely critically on the potential to negotiate an FTA with the US, since roughly half of Britain's exports to the countries outside the EU and its existing FTAs, go to the US, dwarfing the importance of any other individual market.

Senior UK Diplomat: "There is so much political weight attached to doing the US-UK deal that it will be a top priority, followed closely by Canada. Negotiating resources will go to these areas first."

Some have commented on the irony of the UK leaving the EU in order to be able adopt a more ambitious trade policy: as Sir Simon Fraser has put it, "it is a bold case of "reculer pour mieux sauter".[39]

Former Senior Official in the European Commission: "The UK desperately needs this deal, but the US couldn't care less. The Brexiteers need a political win at the moment."

The Government has therefore consistently talked up the prospect and potential benefits of such a trade deal. Failure to deliver such a deal could therefore be seen as a significant political setback. Even acknowledgement that such a deal is an unlikely prospect would contribute to growing concern about the UK's economic prospects.[40]

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[39] Roughly translated as *to run back in order to better jump forwards*; Sir Simon Fraser, *Tacitus lecture*, World Traders, 24 February 2017

[40] ONS figures reveal UK GDP rose 0.1% in the first quarter of 2018; this represents its slowest growth since the fourth quarter of 2012

Securing a trade deal with the US is seen as a way to offset the potential economic downsides from Brexit. Assuming the UK leaves the Single Market, the 48% of UK goods and services exports that go to the rest of the EU and EFTA will encounter more friction, even if an FTA is established between the the EU and UK. In addition, the UK cannot assume it will automatically retain access to third-country trade agreements the EU has secured. Countries with which the EU has currently agreed FTAs[41] account for a further 13% of the UK's total trade. In total this means that 60% of the UK's trade will be directly affected by exit from the EU, compared with the 20% of the UK's total export of goods and services which went to the US.[42]

Nikhil Datta, Centre for Economic Performance – London School of Economics: "A US-UK FTA will in no way make up the economic losses from Brexit, but multiple FTA's with third party countries will start to mitigate some losses when you look at the cumulative effect."

Many British companies view the possibility of a trade deal with the US with keen interest, especially given the longstanding cultural links between the UK and US, although many are also sceptical that an attractive deal can be secured.

Jon Moulton, Better Capital – a London based private equity investment firm: "A deal with the US is potentially very good but doing a deal with Trump would be complicated."

Johnnie Ball, Fluidly - a London based fintech company: "We certainly plan to expand into the US within the next 18 months; the smoothness of the transition and the easier it is for us as a UK headquartered company to do business in the US the better. I would have rather not had the friction in the first place, but now the vote has been cast I would like a trade deal. "

US officials recognise that securing a trade deal with the US, would enable the Government to be seen as securing a big prize from Brexit.

US Department of Commerce Official: "Securing a trade deal with the US would be a great step politically for UK – becoming a "back-door to US for third party countries" will help them attract more trade deal/FTA/MTA partners in the future."

[41] The EU currently has FTAs with Canada, Korea, Mexico, Singapore, Mercosur, and is in the final stage of a deal with Japan. European Commission, Agreements and Negotiations, 2 May 2018

[42] Office of National Statistics, *The Pink Book*

Levels of US interest in the deal remain unclear at best

By contrast, the level of interest of the current US Administration in negotiating an FTA with the UK remains unclear at best, despite Trump's initially positive signals. Ultimately, the UK is a relatively small trading partner for the US and the Trump Administration appears more focused on "levelling the playing field" in existing major trade agreements such as NAFTA, or with bigger trade partners such as China.

Senior U.S. Government Official: "The US does not face any kind of pressure. It would be nice for Trump if he could deliver a bilateral deal, but this is nothing compared to the political pressure that British government officials are feeling."

US officials also express satisfaction with the status quo, suggesting that US commitment to pursuing time-consuming negotiations may be low.

Senior US Government Official: "We already have a bilateral trade and investment working group with them which is basically like a TIFA (Trade and Investment Framework Agreement) which means open and strong trading relations already exist, so it is unclear how much more there is realistically to gain."

Recent publications from USTR further indicate that a deal would be difficult to strike, particularly due to US concerns about 'onerous' EU regulations: 'The United States remains concerned about a number of measures the EU maintains ostensibly for the purposes of food safety and protecting human, animal, or plant life or health.'[43]

Yet President Trump has been much more positive than President Obama had been about securing a trade deal with the UK, suggesting that a deal could be done "very, very quickly".[44] Moreover, some US companies are certainly enthusiastic about the potential for an FTA.

Senior Official in the European Commission: "Trump demonstrates a shift in policy, where Obama supported the European agenda, and put the UK at the back of the queue if they were to leave, Trump has made it clear a US-UK FTA is a priority."

Senior US Trade Official: "There is a lot of domestic political support for this, I don't think we would have any problem in Congress. Everyone seems to be on board."

A leading US manufacturer: "The members of the US National Association of Manufacturers support the agreement thoroughly, especially given the large numbers of firms who have existing operations in the United Kingdom."

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[43] USTR, *2018 National Trade Estimate Report on Foreign Trade Barriers,* April 2018

[44] The Guardian, *Trump expects trade deal with UK to be completed 'very, very quickly'*, 8 July 2017

Assuming the potentially controversial issues can be navigated, a trade deal with the UK could in principle attract widespread political support.

Professor Larry Summers, former US Treasury Secretary: "This is the trade deal that people who hate trade can rally behind. The British are the people most like us in the world; they are white, rich, speak our language, and there is no hint of 'helping foreigners'."

Yet the Trump Administration's "mercantilist" attitude towards trade, "Buy America" policies, and recent assertive actions on tariffs pose challenges for any FTA negotiation. USTR Lighthizer has asserted that "it is now time for a more aggressive approach. The Trump Administration will use all possible leverage to encourage other countries to give U.S. producers fair, reciprocal access to their markets."[45] President Trump has pledged to take "every decision on trade [...] to benefit American workers and American families".[46]

Craig VanGrasstek, Lecturer, Harvard Kennedy School and Publisher, World Trade Reports: "Through NAFTA and most likely a US-UK FTA, the U.S. is setting a new mercantilist framework for trade agreements. This is a contradiction in terms, if trade is a zero-sum game then why bother with trade liberalisation deals in the first place?"

Senior UK Government Official: "The US approach to this is not promising. How does starting a new bilateral trade negotiation look in the face of a political administration that is pushing "Buy America First?"

A leading US manufacturer: "The US is currently pushing many of its own priorities in trade negotiations. For example, the administration's approach on rules of origin may well be much more restrictive that what we've seen in the past, [and] since Trump's inauguration we haven't actually seen the conclusion of a single bilateral deal by the US."

The Steel and Aluminum Tariff,[47] and other US tariffs on Chinese goods, underscore the Trump Administration's "America First" approach to trade negotiations. More generally, the Trump Administration's focus on America's interests, captured in the slogan "America First" may well have fuelled sentiment against foreign companies and products.

[45] USTR, *The President's 2017 Trade Policy Agenda*, 2017

[46] The White House, *The Inaugural Address*, 20 January 2017

[47] US Department of Commerce, *U.S. Department of Commerce Announces Steel and Aluminum Tariff Exclusion Process*, 18 March 2018

Izaak Watson and Adam Hooper, Martin's Rubber: "The US is a particularly protectionist market and it's not so much about trade deals, as just an inherent unwillingness to buy anything that doesn't have an American flag on it. Certainly, when we've been talking to oil and gas customers the fact that we didn't have an office or manufacturing facility in Houston basically meant they wouldn't even bother talking to us. Trade deal or no trade deal."

Finding 2: There is a clear power imbalance between the US and UK

Any trade negotiation between the US and the UK would be profoundly shaped by the imbalance in power between the two parties to the negotiation. This imbalance derives from two key differences: the relative size of the US and UK economies; and the relative institutional experience and capacity in conducting trade negotiations.

The imbalance in market size

The UK economy is one fifth the size of the US economy and, once the UK leaves the EU, Britain will no longer be a door to Europe for American business.

Nikhil Datta, Centre for Economic Policy, London School of Economics: "The EU and US economy are same size about 20 trillion dollars, but the UK is 2-3 trillion. This is a terrible bargaining position for the UK."

Senior Official in the European Commission: "There is a clear market access mismatch when looking at the UK and the US."

Lourdes Catrain; a trade partner at Hogan Lovells in Brussels: "Imagine the U.S. negotiating an agreement as opposed to the State of California negotiating an agreement, there is a great difference in leverage and power."

Moreover, after Brexit, the UK will no longer be able to sell itself as a gateway to Europe as a whole.

Paul Snape, Associate Director British American Business Council of New England and Principal at Great British Marketing: "If US firms were looking at the UK as a gateway into the EU, the advantages that used to exist in doing business with the UK are now off the table. The current situation also makes Dublin/Brussels more attractive because of access to the larger European market. Conversely we have seen huge interest in the USA as an export market from UK firms uncertain of their future trading terms within the EU."

US senior officials are well aware of the strength of their bargaining position. Brexit was described by US Commerce Secretary Wilbur Ross as a "God-given opportunity" to take business from the UK, while Britain is facing a "period of confusion".[48]

Professor Dennis Novy, University of Warwick: "This whole trade policy world is a game of bullying. The largest guy is the biggest bully and typically gets their way [...] If you talk to people on the other side of the Atlantic, they will [...] put it in a more modest and diplomatic way but anyone who knows something about trade policy is very clear about this."

Given that the US refused inclusion of financial services in the aborted TTIP negotiations with the EU as a whole (including the UK), it seems unlikely that the US would now be willing to include financial services in a deal with a significantly smaller partner, despite the importance of this sector to the UK. Furthermore, some have suggested that the way the US is approaching renegotiation of side agreements like the US/EU Open Skies agreement with the UK is an indicator of how they will approach a US-UK FTA.[49]

The imbalance in negotiating capacity and expertise.

Exacerbating the difference in scale, the UK demonstrably lacks institutional capacity and experience in trade negotiations, not least because the UK's trade relationships have been negotiated through the EU for the last several decades.[50] By contrast, since 2000, the US has concluded 12 bilateral trade agreements, one multilateral agreement and has engaged in lengthy negotiations around the Trans-Pacific Partnership ("TPP") and TTIP.[51]

Craig VanGrasstek, Lecturer, Harvard Kennedy School and Publisher, World Trade Reports: "we [the UK] have a handful of new trade negotiators who need to relearn the subject because it was outsourced to the EU for decades."

However, US Government officials tend to downplay the difference in negotiating capacity.

Senior US Trade Official: "The size of each negotiating delegation is actually the same for each country at around 30 people."

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[48] Ashley Cowburn, *Donald Trump's trade-chief 'Brexit is God-given opportunity for Britain's financial rivals*, The Independent, 26 December 2016

[49] Manson, K., Barker, A., Powley, T., *US offers UK inferior open skies deal after Brexit*, Financial Times, 5 March 2018

[50] Many we interviewed remarked that they had been personally approached by the Government to serve as a trade negotiators

[51] USTR, Free Trade Agreements

Senior US Diplomat: "The main negotiating guidelines so far are coming from, in my opinion, competent individuals from the FCO in London and representatives from the Embassy in D.C."

While some in the UK have positioned Brexit and the prospects of a trade deal with the US in the broader context of reinforcing relationships in the "Anglosphere" and reinforcing the "Special Relationship" between the US and the UK, the trade experts we spoke to were highly sceptical that such notions would make much difference to the hard-nosed reality of trade negotiations.

Senior Official in the European Commission: "British officials who might be relying on this "special relationship" too much are in for a rude awakening."

Senior Official in the European Commission Directorate-General for Trade: "The UK is under a false nostalgia that Trump loves Britain and hates bureaucratic Europe. In reality, the UK should be scared, just like the U.S. on Chinese steel; Lighthizer could clean them out too."

Senior British Diplomat: "The UK is a sucker for self-delusion and nostalgia."

Finding 3: The UK must strike a deal with the EU before it can negotiate an FTA with the US

Since most of the key components of a potential US-UK trade deal are dependent on the terms of the future trading relationship between the UK and the EU, current discussions between UK and US official can only be of an exploratory nature.

Senior USTR Official: "By far the biggest challenge is that this US-UK deal is highly interwoven with the UK-EU relationship."

Senior Official at the European Commission: "There is so much uncertainty with the UK and the EU - at the moment nothing is clear. In practice, a US-UK deal would be happening in parallel to, but officially after, a UK-EU negotiation which in reality is too broad and speculative to enable a concrete discussion."

Senior UK Government Official: "The uncertainty is limiting. An actual US-UK deal in practice is too far off, has too much uncertainty, and too much speculation."

Until it is clear to what extent the UK will adhere to EU regulations, and how it will interrelate with the Customs Union and thus the CET, it is impossible for serious negotiations on a US-UK FTA to take place. Each chapter of a US-UK FTA is reliant on the terms of the agreement between the EU and the UK after separation. For example, before serious negotiations on agricultural tariff reductions can start, the UK needs to negotiate the division of existing TRQs with the EU and establish a new tariff schedule.

Senior US Government Official: "Until the UK figures out what future arrangement they are going to have with the EU, even if you start a negotiation, you are tied down. The ball is really in their court to make progress in sorting out UK-EU relations moving forward."

Senior Official in the European Commission Directorate-General for Trade: "There is so much uncertainty with the UK and the EU - at the moment nothing is clear. In practice, a US-UK deal would be happening in parallel to, but officially after, a UK-EU negotiation which in reality is too broad and speculative to enable a concrete discussion."

A leading US manufacturer: "None of us know what the post Brexit arrangement is going to be with the EU. However, the final arrangements, including tariffs with the EU and regulatory arrangements, the latitude of the UK's agreement with the EU is very important in setting the parameters for a US-UK trade deal."

The renegotiation of NAFTA will also affect the parameters of a potential deal with the UK.

Senior Former European Trade Negotiator: "Take rules of origin for example, if the US ask of increasing the standard from 62.5% to 85% (domestically produced material content) in NAFTA is adopted and then the same rule is applied to the UK, a deal is simply not possible given the British-European supply chain."

Garry Hufbauer, Senior Fellow at the Peterson Institute for International Economics and NAFTA Expert: "If the 69 visa-free professions that the US gave to NAFTA members in the original NAFTA holds, this could be something the UK asks for. This is especially relevant in this negotiation since majority of US-UK trade is in services."

This has significant implications for the potential timeframe for such a deal. In addition to the time it will take to agree on a UK-EU deal, which could take two to three years, the US, on average, takes 45 months to negotiate bilateral trade agreements. As Table 3 shows, the shortest time frame from launching negotiations to implementation was 18 months (Jordan); while the longest took 102 months (Panama). Even assuming some ability for discussions to proceed in parallel, an FTA between the US and the UK is not a near-term prospect. Negotiating with a country the size of the US will be a protracted process, and will not take place "very, very quickly" as Trump had promised.[52] A realistic timeframe for completed negotiations could be up to five or seven years in total.[53]

Table 3: Length of all Existing US Bilateral Free Trade Agreements

US FTA partner	**From launch date to signing** (months)	**From launch date to implementation** (months)
Jordan	4	18
Dominican Republic	6	37
Bahrain	7	30
Oman	10	45
Korea	13	69
Australia	14	22
Israel	15	29
Morocco	16	35
Costa Rica	18	71
El Salvador	18	37
Guatemala	18	40
Honduras	18	38
Mexico	18	31
Nicaragua	18	38
Canada	20	32
Peru	23	56
Singapore	29	37
Chile	30	36
Colombia	31	96
Panama	38	102
Average	*18*	*45*

Note: Launch date means first round of negotiations; implementation means the agreement's entry into force.

Sources: Compiled from Office of the US Trade Representative, Congressional Research Service, the Library of Congress, Organization of American States, and authors' calculations.

[52] Anushka Asthana, *Trump expects trade deal with the UK to be completed 'very, very quickly'*, The Guardian, 8 July 2017

[53] Written submission to the UK Parliament from Dr Dennis Novy, Associate Professor of Economics, University of Warwick, to the UK International Trade Select Committee (TER0002), 10 November 2017

Senior Official in the European Commission: "A US-UK deal is such a long way off and only rooted in speculation. To do nothing is really the only logical conclusion for any person or business with economic interests."

Paul Snape, Great British Marketing: "3-4 years of uncertainty with transition period is really bad for business and business planning on both sides, but more strongly discourages US business from entering the UK."

Some have even suggested that the UK may be better off waiting until the EU has secured an FTA with the US. However, this would completely undermine the argument that being able to negotiate an FTA with the US is an advantage of Brexit.

Robert Lawrence, Albert L Williams Professor of International Trade and Investment, Harvard Kennedy School: "Britain's best chance for a US-UK deal is if the EU negotiates with the US first and then the UK free rides and pleads to the US for the same deal."

Finding 4: The UK will have little to gain and will have to concede more on tariff reductions than the EU offered in TTIP

Tariffs between the US and EU (including the UK) are already relatively low, and leaked documents from the TTIP negotiations suggested that the EU had agreed to remove 97.5% of existing tariffs in the hope of concessions on public procurement and financial services, while the US offered an 87.5% reduction of tariffs in return.[54]

From a UK perspective, there are several US tariffs that could be removed to the benefit of consumers. Examples include garments, textiles, and fabrics for which the US currently has tariffs as high as 32%. However, few of the items on which the US imposes high tariffs are strategically important for the UK: and the opportunities are often complicated by non-tariff barriers.

Ian Wright CBE, Food and Drink Federation: "Companies are excited for the UK to strike its own trade deal with the US, especially given the significant branded value add on scotch, gin and chocolate. But tackling the non-trade barriers is extremely difficult."

On average, EU tariffs (and thus UK tariffs if it replicates the current tariff schedule) are higher than US tariffs, which means the UK has more to offer in a potential US-UK FTA. Moreover, the US will expect the UK to concede more on tariffs than the EU given the smaller scale of opportunity the UK market offers.

[54] EU Observer, *TTIP: EU offered 97% cut on US tariffs, secret papers show,* 22 February 2016

Senior US Diplomat: "The US will squeeze the UK on tariffs much farther than they are probably willing to go, but not necessarily as hard on regulatory sectoral annexes."

Removing agricultural tariffs is a significant opportunity, but hugely controversial

For the US, removing or sharply reducing tariffs on agricultural products will be a key objective. The EU imposes significant tariffs or TRQs on agricultural products including poultry and other meats (which can have up to an 80% tariff including the flat fee associated with these imports), alcohol (for example the average duty on wine is 32%), seafood (25% tariff in many cases), many fresh fruits (15-20% tariffs), dairy, and sugar (TRQs) that are equivalent to 20% on average[55]. Agricultural tariffs and food safety standards were one of the major sticking points in the TTIP negotiations and many of the same issues are likely to arise if the UK adopts the EU's tariff schedule on goods in the WTO.

A Senior Board Member at the Food Standards Agency: "Those of us in agriculture feel vulnerable that we will be sacrificed in exchange for a better deal in services. DEFRA is filled with rabid free traders who will sell us aspects of a better deal that will hurt agriculture."

Swati Dhingra, Lecturer, London School of Economics: "The UK might be more likely to lower agricultural tariffs than the EU was during TTIP. Historically Europe has been more concerned with protecting farming than the UK."

Moreover, opening the UK market to much cheaper US food by reducing tariffs, while undoubtedly delivering lower prices for consumers, would threaten the economic sustainability of large parts of UK farming, and would also generate significant debate about benefits of lower prices versus the risk of lower safety and environmental standards.

A Senior Board Member of the Crop Protection Association: "There is also a cultural aspect where the wealthy idealise Europe and the poor idealise America. Although on a political activist front, Brits would be opposed to chemical washed chicken or hormone beef, the working class would be very content with cheaper access to American pulled pork, sliced bacon, baby-back ribs."

UK farmers are concerned that their interest will be sacrificed to secure a deal on services.

A Senior Board Member of the Crop Protection Association: "Agriculture is not a political priority at the moment and for the government if you lose a thousand pork farmers to get services that's a no-brainer"

[55] Tariff figures adapted from the US and EU's tariff schedule exported from WTO data.

Removing tariffs on manufactured goods will be complicated by UK companies' integration into EU-wide supply chains

Current WTO MFN tariff rates on industrial goods are currently relatively low: for both the EU and US, average tariffs on industrial goods are 1.6%.[56] There are opportunities in sectors like automotive and chemicals, but reducing or removing such tariffs would have significant knock-on implications since most British companies in these sectors operate as part of integrated pan-European supply chains.

Auto and motor vehicle tariffs are commonly cited as an opportunity, since the EU tariff on autos is 10% while the US rate is 2.5%. According to the German Association of the Automotive Industry, such tariffs cost the auto industry around €1 billion per year.[57] Given the starting differentials, further tariff liberalisation is likely to be of more benefit to US companies than UK companies.

Tony Walker, Toyota Motor Europe - manufactures and sells Toyota and Lexus vehicles, parts, and accessories: "The EU already has a trade arrangement with the US for a tariff on cars. It's 2.5%. So, it could be difficult for the UK to get a better deal than the EU has already got. It may not be so realistic to get anything radically much better in the UK."[58]

Current EU tariffs on chemicals average 10%, and the US would likely demand elimination of such tariffs as part of an FTA with the UK. Removing such tariffs could offer benefits to both economies: in the context of TTIP, it was estimated that eliminating tariffs on chemicals "would have brought about an estimated £168 million per year boost to other associated sectors in the US and UK, such as aerospace, automotive, construction, pharmaceuticals and household products".[59] However, most UK players in the chemical industry operate as part of highly integrated pan-EU supply chains under a single regulatory framework. Opening up to US chemicals produced under a very different regulatory environment, would introduce significant frictions into such pan-EU supply chains. The EU would not want to see a US-UK FTA undermining the CET, nor its regulatory position.

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[56] Congressional Research Service, US-UK Free Trade Agreement: Prospects and Issues for Congress, 14 April 2017

[57] Datta, N. and Dhingra, S., *What next for US-Europe trade policy?,* Vox, 16 July 2017

[58] Quoted in: Balls, E., Sands, P., Hallam, E., Leape, S., Sethi, M., Weinberg, N., *M-RCBG Associate Working Paper No. 84: Time for Clarity: The Views of British Business on The Path to Brexit,* February 2018

[59] Written submission from CBI to the UK International Trade Select Committee (TER0028), 21 November 2017

Another way in which the extensive integration of UK manufacturing into pan-EU supply chains will complicate the negotiation of tariffs in a US-UK FTA concerns rules of origin, the requirement to prove the originating status of goods to qualify for preferential treatment in respect of customs duties.[60]. If the US demands the same rules or origin standards they are pushing for in the NAFTA renegotiation, many UK firms in the automotive, aviation, chemical or food sectors will find their products fail to qualify for the tariff reductions, since they incorporate too many components from the rest of the EU; an issue that was similarly a stumbling block in the TTIP negotiations.[61] US negotiators, backed by US manufacturers, will be as keen to ensure EU components are not routed into the US via the UK to avoid US tariffs, as the EU will be to ensure US components do not use the UK as a traff-free route into the EU market.

A leading US manufacturer: "The rules of origin requirements set by the US are unlikely to reflect existing supply chains. It is clear in the NAFTA messaging that regardless of the costs and red-tape of rules of origin requirements, these are a crucial part of 'America First' manufacturing. Anybody negotiating an FTA with the UK will be wary of British folks trying to smuggle in EU componentry into manufactures exports."

Finding 5: The US demands on non-tariff and regulatory issues will be politically contentious and difficult for the UK to meet

With TTIP, US and EU negotiators strived to construct a deeper trade deal that went beyond tariff reductions to achieve greater harmonisation of regulations and standards. Both USTR Lighthizer and his British counterpart, Liam Fox, have repeatedly claimed that the elimination of non-tariff barriers would be the central objective of an FTA with the US.[62] Greater regulatory alignment for trade in services is the key prize, since the UK and the US are each other's largest trading partners in services.

[60] Since many FTAs do not involve common external tariffs Rules of Origin can be used as a means of ensuring third countries do not seek to avoid tariffs.

[61] European Parliament, Legislative Train Schedule: TTIP Chapter on Rules of Origin, 20 April 2018

[62] Wallace, *US and UK to start trade talks next month to ensure deal soon after Brexit*, The Telegraph, 20 June 2017

Various analyses have suggested US-UK FTA that succeeded in tackling non-tariff barriers to trade, and particularly services, could offer significant economic benefits.[63] However, securing agreement on reduction of non-tariff barriers is usually far more difficult than achieving reductions in tariffs. Indeed, disagreements on non-tariff provisions were key to the failure of TTIP. While all the officials and experts we interviewed agreed that there would be benefits from removing or reducing non-tariff barriers to trade in services, they were also sceptical that achieving significant changes in non-tariff barriers would be politically feasible.

Senior UK Government Official: "The bulk of this deal is in standards and regulatory arrangements, which means that even discussing a US-UK deal is a waste of time. As seen in TTIP, there are many standards British citizens and the Government will never compromise on which leaves little room for negotiation."

Senior European Union Representative: "Non-tariff barriers is an issue that is more difficult than both governments admit - what is realistic is small gains."

Senior Official in the European Commission: "The US may seek market access in things like the treatment of public services, especially health services, which would be particularly politically sensitive [in the UK]."

US officials clearly believe that they will be able to secure more concessions on non-tariff barriers from the UK than they were when negotiating TTIP with the EU as a whole. US 'asks' are likely to include relaxation of regulations on labelling, food safety, use of GMOs and privacy protection in the digital arena, plus greater access for US providers to the UK healthcare market.[64] US negotiators may also demand changes to the NHS systems for procuring drugs so that US pharmaceutical companies can charge prices more in line with what they charge in the US.[65] Such demands will almost certainly spark strong public opposition in the UK, illustrated by the already intense concern about the possibility of "chlorine-washed chicken" imports, and widespread hostility towards anything that undermines the NHS. Ultimately, public opinion will be key in determining whether the UK is willing to accede to US demands.

Senior US Government Official: "Domestic politics could also flare up in the UK. We know how Congress behaves, it is predictable, but we have no idea how the British Parliament will behave. Parliament has never exercised control over trade negotiations or agreements and they could end up scrutinising the agreement even more than Europe as a result of domestic constituency concerns."

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[63] For example, Dhingra, Freeman and Mavroeidi, *CEP Discussion Paper No 1532: Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?,* March 2018

[64] USTR, *2018 National Trade Estimate Report on Foreign Trade Barriers,* April 2018

[65] US Department of HHS, 'Trump Administration Releases Blueprint to Lower Drug Prices and Reduce Out-of-Pocket Costs' Press Release, 11 May 2018

Senior UK Government Official: "It all goes back to the UK media commentary on chlorine-washed chicken and hormone raised beef. I believe the controversy is as strong as it was back then. DEFRA has made it clear they will not accept a deal which lowers food standards for the sake of a deal. If you apply this logic to other sectors, I am doubtful of the ability of both governments to work through the domestic politics and challenges of this deal."

Nikhil Datta, Centre for Economic Performance – London School of Economics: "A deep trade deal means giving up certain amounts of control, that's just how it is. Safety, environment, etcetera are fundamentally different and the US isn't going to budge especially under the current administration, so the UK will have to look at fundamentally changing their standards. It just doesn't look particularly likely since UK preferences are quite similar to the EU and further from the US."

Finding 6: Negotiating non-tariff and regulatory issues will force the UK to choose between US or EU in terms of regulatory alignment

To negotiate reductions in non-tariff barriers through greater harmonisation of regulations and standards the UK will need to decide whether to seek closer regulatory alignment with the US versus continued alignment with the EU. Many interviewees pointed out that the UK is not a large enough market to justify the costs of adjusting goods and services provided to meet a distinct set of UK-specific regulatory requirements. In many industries, the huge costs involved in designing products to meet standards mean that countries choose to follow either the US, EU or China. US manufacturers repeatedly express concerns about having to comply with yet another, UK-specific set of regulations, warning this may mean some small volume items, such as niche car models, become no longer available in the UK,since the costs of complying with UK-specific regulations may not be warranted by the market size.

William Bain, The British Retail Consortium: "Fundamentally, if we include China, there are only really three sets of rule givers when it comes to international trade. If you adopt your regulatory standards to move towards the US market, you fall away from the standards that allow interaction with the EU market."

A leading US manufacturer: "US firms are already adhering to one set of regulations with the EU and another set for the US. However, companies are concerned that they are soon going to have to deal with a third set of regulations for the UK specifically."

Senior EU Official at the European Commission: "Most issues are "either-or" and put the UK in a corner to decide who to align with, especially when it comes to regulatory standards."

Nick von Westenholz, The National Farmers Union: "It's difficult to see short to medium term how we're going to get a trade deal with the US. The US was unable to reconcile with the EU when they were talking to each other on TTIP. It's a fact that international trade isn't about tariffs, it's about regulations – if you can adapt to US regulations, and you can absorb the costs of doing that, then you will. However, the UK would have to observe US standards. The UK can make a choice, but it can't really trade with the US without observing US standards, and this may mean abandoning harmonisation with the EU."

With some types of regulatory standards, such as labelling, companies can comply with multiple regimes simultaneously, albeit at a cost. Other types of standard, such as those for the digital economy, pose more of a binary choice: companies will find it much more difficult to comply with both sets of rules simultaneously, and will have to operate different business models or sell different products, depending on which market they are serving.

In some critical areas, the UK seems likely to stay close to the EU model, limiting the scope for alignment with the US.

Soumaya Keynes, Economic and Trade Correspondent at the Economist: "The US will continue to face barriers to data and digital trade rules because the UK will in practice have to follow whatever the EU does. Differences in things like data localisation rules between the EU and US, for example, will disrupt a UK-US negotiation."

Senior US Government Trade Negotiator: "It's not just about sovereignty, UK regulation needs to stay as close to Europe as possible. This means they might keep a lot of the same regulations in place anyway, which would limit the scope of a US-UK FTA."

Senior US Government Official "The UK should be careful not to align so tightly with the EU that they restrict their own market and hurt negotiations with third party countries."

Attitudes towards the relative benefits on aligning more closely with US or EU regulation vary by industry, and by type of player within each industry.

Sally Jones, Deloitte UK: "Insurers think it would be beneficial to align with US than EU standards as they have more trade with US. In banking and capital markets they do more trade with EU so preference to align with EU. UK negotiators wrote the EU laws, so they align with UK preferences. Most financial services firms will say they would rather align with international rules than US."

In the chemicals sector – the UK's largest source of manufacturing exports – most British companies want to remain aligned with the EU's REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulatory framework, not least because many British companies operate as part of pan-EU supply chains and thus need to adhere to EU regulation. REACH regulations impose extensive registration, testing and data requirements to manage safety and environmental risks. The already significant differences between this approach towards chemicals regulation and that of the US are likely to widen given the Trump Administration's stance on environmental protection.[66]

Across many industries, differences in regulatory approaches towards risk arise from the fact that, unlike in the US, the EU's philosophy of regulation is based on what is called the "Precautionary Principle", the concept that where risks are uncertain, the onus is firmly on companies to ensure that their products are safe.

A leading US manufacturer: "The precautionary principle is a thorn in the side of US manufacturers. Our manufacturers endorse the US approach, and even in the abstract it is difficult to imagine the US acquiescing to precautionary principle style regulations."

Unless the UK shifts away from this fundamental principle, it will prove a significant constraint on the degree to which US-UK regulations can be harmonised.

Across different industries, there are also many specific regulatory concepts on which the US and EU differ significantly. For example, on agricultural Geographical Indications ("GIs"), the US and EU take very different approaches, so the UK will need to decide which model to align with. US officials are clearly hopeful that the UK will be more willing to make concessions than the EU proved during the TTIP negotiations.

Senior US Government Official: "GI's are not an "either-or" issue. UK has significantly less GI's than any other European country but negotiating with the EU means Europe will want their names protected in the UK market so these terms and details are what becomes increasingly important for us."

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[66] Examples of environment and chemical laws that are being rolled back under the Trump Administration can be found here: The New York Times, 67 Environmental Rules on the Way Out Under Trump, 31 January 2018.

Senior US Trade Negotiator: "Some of the baggage we had the EU we wouldn't necessarily have with the UK, like GI's for example. The EU had 100+ and UK only has like 3 that are relevant to the US (Scotch and Whiskey being the most important). They are aligned with more of our thinking and generally more in sync with us than Europe was. Doing a bilateral deal with one country is much easier than 27 or 28 countries."

Garry Hufbauer, Senior Fellow at the Peterson Institute for International Economics and NAFTA Expert: "Geographical Indications is another case that depends on which way the UK leans (towards EU or US). It could be impossible for the US and UK to negotiate GI's at all if the UK sticks to the status quo EU system."

Finding 7: The US cannot, or will not, move on many British non-tariff and regulatory interests

Most of the potential upside for UK business arises in service sectors where UK institutions have particular strengths, such as education, financial services and the creative industries. The UK will therefore seek reductions in non-tariff barriers in these sectors.

Senior European Union Representative: "(Financial services) will be a huge issue for the UK because they are already losing lots of business to European Banks and will be desperate to save this vital sector."

However, significant concessions by the US in such areas look unlikely, partly because many of the critical regulations are set at state level rather than by the federal government, and partly because of the political salience of the issues. US regulators are simply unable to negotiate many key non-tariff and regulatory issues with the UK due to the federalist structure of the US, which puts many regulations beyond the control of the USTR and federal government.

For example, the UK has sought mutual recognition of professional qualifications for several years to smooth temporary mobility, facilitate trade in services by easing the establishment of service provision in another country, and simplify the process of working abroad. However, in the US, it is typically individual states that issue professional licenses and qualifications, prudential measures, and similar service-related standards. For example, in architecture, the Royal Institute of British Architects ("RIBA") suggests that there are significant underexploited market opportunities for architectural services outside the EU while acknowledging the complexity of negotiating bilateral recognition agreements[67].

[67] Royal Institute of British Architects, *Mutual Recognition of Professional Qualifications*, January 2017

Garry Hufbauer Senior Fellow at the Peterson Institute for International Economics and NAFTA Expert: "Recognition of professional credentials has never really been done as part of a US trade agreement. The Federal government could override state restrictions and create a neutral competence determining body, but they will never do this."

Professor Larry Summers, former US Treasury Secretary: "In law for example, individual states control degree certifications and bar exams; the Federal Government cannot and will not interfere."

Opening up more opportunities in the US financial services markets will be a key UK objective in a US-UK FTA negotiation given the strengths of British institutions in banking, capital markets and insurance and the scale of US-UK trade in financial services. Moreover, there is good will on both sides given a long history of regulatory cooperation.

Senior US Government Official: "On our side, the Department of Treasury has the lead on financial regulatory cooperation. Our general sense is that given that the prominence of this sector in both of our economies it would truly be a shame if we weren't able to make progress in this arena."

Yet since the US was reluctant to make any concessions on financial regulatory cooperation and harmonisation during the TTIP negotiations, when the UK was playing a leading role on the EU side, it is unclear why the US would be prepared to concede on a purely US-UK deal with more limited upside.

Gary Hufbauer Peterson Institute for International Economics: "[Financial services] was the biggest UK ask in TTIP and the US refused to even entertain talks, supposedly because of Dodd-Frank laws. It is also sensitive and divisive issue in Congress."

Senior Official in the European Commission: "I would say that financial regulatory cooperation was one of the largest stalemates of the TTIP negotiation that along with public procurement took it to its death."

Any concessions by the US on financial services regulation would require legislation, which would be highly contentious.

Senior US Government Official: "This issue [financial services] is easier to support in theory, but it is very hard to negotiate the details. It requires legislated cooperation between both countries national banks and institutions; in some cases, the US Federal Government doesn't have the jurisdiction to take such measures, and the executive branch often has its hands tied by Congress."

Sally Jones, Director of International Trade Policy at Deloitte: "It is unlikely that Trump would think about opening up US banks to international competition, as it doesn't align with his policy positions."

Public procurement is another area where the US is unlikely to make the concessions desired by UK negotiators. While accessing the US public procurement markets would be a "potentially large prize from the UK perspective" since the US government is the largest public procurer in the world,[68] all our interviewees were sceptical that the US would reform their rules on procurement. Although subject to the WTO's Government Procurement Agreement, the US imposes a number of restrictions, including the Buy American Act of 1933 and the American Recovery and Reinvestment Act of 2009, plus various security-related provisions. Moreover, 65% of government procurement in America is conducted at the state level, and most US states have their own bespoke 'Buy America' provisions.[69]

Robert Lawrence, Albert L Williams Professor of International Trade and Investment, Harvard Kennedy School: "Government procurement, a strong UK ask, is one of the many things that is simply incompatible with "Buy America," when considering any kind of US-UK deal."

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[68] Dennis Novy, quoted in: UK Parliament International Trade Committee, 'UK-US Trade Relations Report', 1 May 2018

[69] European Parliament Directorate-General for External Policies, *Openness of Public Procurement Markets in Key Third Countries*, July 2017

Conclusion

Both US and UK officials are doubtful that a meaningful deal can be reached

Many of the officials and experts we spoke with concluded that in reality, when taking into account the complexity of the technical issues, the interdependence with the UK-EU and NAFTA negotiations and the political constraints, it is hard to see how a US-UK FTA of the depth and breadth required to deliver significant economic benefits can be secured.

Senior UK Government Policy Advisor: "Personally, I am very doubtful about the ability of both governments to work through the domestic politics and political challenges of this deal."

Senior US Government Official: "we already have a bilateral trade and investment working group with them [the UK] which means open and strong trading relations already exist, so it is unclear how much more there is realistically to gain."

Professor Larry Summers, former US Treasury Secretary: "It is delusional to think that a US-UK trade deal will happen anytime soon. It is simply not possible."

Some have suggested that because the UK will struggle to secure a bilateral FTA with the US, that it should seek to join NAFTA.

Senior US Trade Officer: "We should give some thought to the UK joining NAFTA (assuming it doesn't fall apart). It isn't as crazy as it might sound at first. After Brexit, the UK needs new agreements with Canada and Mexico anyways. Then there is the missing FTA with the US, which both governments say they want. Cultural, institutional, and trade ties all suggest that it makes sense."

Yet it is hard to see how negotiating entry into NAFTA would be easier than securing a bilateral deal, since all the underlying issues about how the UK balances alignment with the EU versus alignment with the US (and North America more generally) would still arise. Moreover, the deal the UK would want would entail much more opening up of services than NAFTA offers. Joining NAFTA would appear to be very much a take-it-or-leave-it option from a UK perspective.

Table 1 summarises our key conclusions. The UK would be very keen to secure a deal, in part to demonstrate upside from Brexit, but is in a weak negotiating position and would need the US to make significant – and unlikely - concessions on services in order to achieve significant economic gains. The UK also needs to resolve its future trading relationship with the EU first. For the US, an FTA with the UK is more of a "nice-to-have", which they would probably only agree to if it was demonstrably to the advantage of US companies. It is conceivable that the US and UK could decide that a limited and fairly cosmetic deal would meet political objectives, even if it failed to deliver substantive economic gains, but even this might be difficult to craft. Or the Government could conclude that the political imperative of securing a deal with the US means that even a "bad" deal was worth doing. But it is difficult to escape the conclusion that the most likely outcome – at least for the next few years – is that a US-UK FTA is not going to happen.

Table 1: Issues Determining the Prospects and Potential Benefits of a UK-US FTA

	UK	**US**
Strategic Interest	Imperative to demonstrate an upside to Brexit.	Lower priority than renegotiating NAFTA and tackling China
Timeline and Capacity	Needs an early win, but can't proceed with negotiations until the EU-UK position is clear. Limited negotiating capacity.	Other priorities, and no time pressure. Significant negotiating capacity.
Tariff	Will have to make concessions and has little to gain	Will demand concessions
Non-Tariff and Regulation	Potential benefits in sectors like financial services are unlikely to be realised; concessions to US demands are politically fraught.	Will expect concessions on sectors like food, digital and healthcare. Likely to concede little.
Politics and Negotiability	Must avoid looking desperate but must also avoid acknowledging that this could be a dead end.	Holds all the cards against the US. Even so, a UK-US FTA may be difficult to deliver.

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Interviewees

Please note, the following interviewees who consented to being listed do not include the 17 senior government officials we interviewed. Due to the sensitive nature of their roles in the negotiations we cannot attribute quotes to these senior officials individually. A list of interviewees has been presented to John Haigh, co-director of the Mossavar-Rahmani Center for Business and Government at Harvard Kennedy School. Some of the companies and industry experts we interviewed also chose to remain anonymous. In addition to the interviews, we reviewed the constantly growing body of literature on this topic being published on both sides of the Atlantic.

Experts and Academics:

Craig VanGrasstek – Lecturer, Harvard Kennedy School and Publisher, World Trade Reports

Professor Dennis Novy – University of Warwick

Garry Hufbaer – Peterson Institute for International Economics

Professor Larry Summers – President Emeritus at Harvard University and former US Treasury Secretary

Lourdes Catrain – Hogan Lovells Trade Lawyer

Nikhil Datta – Centre for Economic Performance, London School of Economics

Paul McLean – The Financial Times

Robert Lawrence – Albert L Williams Professor of International Trade and Investment, Harvard Kennedy School

Sherman Robinson – Peterson Institute for International Economics

Soumaya Keynes – The Economist

Swati Dhingra – Lecturer, London School of Economics

Trade Associations:

Christopher Wolfe – British American Business Council of New England

Crop Protection Association

Florian Koempel – UK Music

Food Standards Agency

Ian Wright – Food and Drink Federation

John McVay – CEO, Pact

Nick von Westenholz – The National Farmers Union

Paul Snape – British American Business Council of New England

Richard Collins and Dr. Scott Steedman – The British Standards Institute

Richard Normington – UK Investment Association

Samuel Young – Creative Industries Federation

US National Association of Manufacturers

Companies:

Christopher Nieper – David Nieper

Christopher Wolfe – VP of MNR Technology

Herwig Vennekens – Haribo

Katherine Bennett – Airbus

Paul Snape – Principal at Great British Marketing

Saadi Hussain – Cofounder of Appdragon, Digital Health Technology

Sally Jones – Deloitte

Tom Shutes – Wakefield Ltd

Tony Walker – Toyota Europe

Izaak Watson and Adam Hooper – Martin's Rubber

Johnnie Ball - Fluidly

We also relied on material from the 200+ company, trade association, and academic interviews from the first and second paper in our series. The complete list of which can be found in the Appendices of both:

Sands, Balls, Leape, Weinberg, *M-RCBG Associate Working Paper No. 77: Making Brexit Work for British Business*, June 2017

Balls, Sands, Hallam, Leape, Sethi, Weinberg, *M-RCBG Associate Working Paper No. 84: Time for Clarity: The Views of British Business on The Path to Brexit*, February 2018