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before the

**United States House of Representatives Subcommittees on Terrorism, Nonproliferation, and
Trade, and Europe, Eurasia, and Emerging Threats**

Next Steps in the “Special Relationship” – Impact of a US-UK Free Trade Agreement

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Chairman Poe, Ranking Member Keating, Chairman Rohrabacher, Ranking Member Meeks, and members of both sub-committees, thank you very much for the opportunity to come here today and speak on this important topic.

With the sometimes harsh rhetoric on trade during the recent presidential campaign, and continuing over the past couple months, I and other free traders have been worried about the direction of US trade policy.

However, the positive talk from both Congress and the incoming administration about a US – UK trade agreement has offered us some hope. Trade negotiations have been struggling in recent years, with more failures than successes. Perhaps a US - UK agreement is just what we need to regain some momentum for trade liberalization.

At the same time, we need to be realistic about its chances. Despite much early enthusiasm for an agreement, there will be significant hurdles, on both sides of the Atlantic.

Turning first to the US side, some advisers to the Trump administration have talked about the possibility of a quick trade agreement with the UK. However, just getting started will take some time.

The United States has a model for trade agreements that has been fairly consistent for a decade now, with slight tweaks depending on which party holds the presidency. However, given its criticism of US trade policy during the campaign, the Trump administration is likely to reevaluate this model, and its revision may take a little while to complete. Competing views within the administration will need to be reconciled, and stakeholders will need to be consulted. I am confident that the new administration will eventually reach a decision on what it wants to see in a trade agreement, but this process could take a few months, if not more.

But it is the UK side where the real challenges lie. The reason we can even have this discussion is because the UK is leaving the EU. But keep in mind, all that has happened so far is a referendum, in which the British people voted to leave the EU. The formal withdrawal process has not even started yet. (The UK Supreme Court recently ruled that the UK government cannot

legally trigger withdrawal until there is an act of Parliament authorizing it, which should happen soon.)

When the withdrawal process does begin, the UK's limited resources in this area will be strained, as it has relied on the European Commission to negotiate trade deals for decades now. The UK will have to hire hundreds of trade experts and set up trade institutions from scratch, as well as decide on its own framework for trade agreements. This could slow down its efforts to negotiate new trade agreements.

In addition, there are political and legal hurdles to the UK negotiating an agreement with the US right away. Some argue that there are limits on the extent to which the UK may negotiate its own trade agreements while it is still a member of the EU. In my view, the UK actually has a fair amount of leeway on this, but US proponents of a US - UK agreement should be aware of the issue. Even if it does not act as a legal bar to US - UK talks, it could be a political hurdle. The UK needs to establish a new economic relationship with the EU (its most important trading partner), and thus will have to take into account the views of the European leadership.

In addition, the precise nature of the relationship that the UK has with the EU will affect other countries' trade and investment with the UK. As a result, they may want to see the terms of the UK - EU deal before concluding their own. For example, what is the precise nature of the access producers in the UK have to the EU market? US companies selling intermediate goods to the UK will be affected if the finished goods have limited access to the EU. And how will UK regulations differ from the EU regulations that previously applied to the UK market? Conflicting standards between the UK and EU will have an impact on companies selling products to those markets.

Despite these hurdles, a US - UK trade agreement is worth pursuing. After the EU, the US is the UK's largest trading partner, and the UK is the 7th largest trading partner of the US. And in terms of the magnitude of the economies, the US is the largest in the world and the UK is number five. The size of the economies combined with the significant trading relationship between the two means that this deal would have substantial benefits for both economies, as increased competition leads to more choices and lower prices for consumers.

In terms of the specific content of a US - UK trade agreement, the two countries are at similar development levels, and have many shared values. That should make negotiations easier. There will not be the sensitivities that arise in relation to trade with certain developing countries, and some of the more controversial trade agreement provisions may therefore not be necessary. In this regard, labor protections and special dispute procedures for foreign investors could be excluded, which could speed up the process. It would be disappointing to have the US - UK trade negotiations turn into a 3 to 5-year slog, bogged down by disagreements over governance rules, as we have seen with other trade negotiations.

More generally, a US - UK trade negotiation provides an opportunity to think carefully about the current model for US trade agreements. The Trans Pacific Partnership, the most recently completed US trade negotiation, has provisions on all of the following issues: Sanitary and Phytosanitary Measures; Technical Barriers to Trade; Investment; Electronic Commerce; Competition Policy; State-Owned Enterprises; Intellectual Property; Labor; Environment; Regulatory Coherence; and Transparency and Anti-Corruption. There were interest groups supporting the inclusion of each issue, and there may be good reasons to include some of them in trade agreements. At the same time, however, each new issue adds controversy and complexity to the trade negotiation process. The struggle to negotiate and ratify US trade agreements in recent years is attributable in part to their growing scope.

In this regard, it should be noted that the World Trade Organization contains fairly detailed rules on some of these issues, such as Sanitary and Phytosanitary Measures and Technical Barriers to Trade. Those rules have been applied successfully in resolving many trade disputes, and therefore replicating what is already available at the WTO in a bilateral and regional trade agreement may not be worth the effort.

With these considerations in mind, a US - UK trade agreement should focus on the following. First, while tariffs have been lowered over the years, some of them are still fairly high. The US and UK should aim to eliminate as many tariffs as politically possible, in as short a time-frame as possible. The ultimate goal should be zero tariffs on all trade between the US and UK. There will be interest groups who resist this, but the average person is better off with the increased competition and lower prices that result.

Second, discussions of recent trade negotiations often note that eliminating regulatory trade barriers will offer the most benefits. On this issue, as noted, some regulatory trade barriers are already prohibited through WTO obligations (for example, using domestic taxes and regulations to protect domestic industry from foreign competition is not allowed). Where FTAs could go further than the WTO is with mutual recognition of standards and regulations, so as to facilitate trade in particular products and services. In many products and services, UK standards and regulations are just as effective as US ones, and there would be great benefit in allowing goods and services that may be sold in one country to be sold in the other as well, without additional testing or certification.

Where domestic regulations are at issue, however, our ambitions should be modest (the high expectations on these issues for the US - EU trade talks may have slowed that negotiation down). Complete harmonization of the regulatory process and of substantive regulations is unlikely in a US - UK FTA. And there is no need to deal with all products and services at once, as it would take a long time to work out the details, cause a great deal of controversy, and likely delay completion of the agreement. Instead, it makes more sense to select a few sectors -- such as automobiles, pharmaceutical drugs, or financial services -- to address now, and then have a

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framework agreement under which the governments could negotiate additional mutual recognition on a sectoral basis at a later time.

Overall, in my view, prospects for a quick and economically significant US - UK trade deal that focuses on these core trade issues are fairly good. A successful negotiation here would be the first positive step forward for trade liberalization in quite some time, and could generate momentum for liberalization more broadly.

Thank you for your time, and I look forward to answering your questions.