

The Telegraph

2020 will be the year of the UK-EU-US trade triangle

Under pressure to seal a EU-UK deal by November, Britain will turn to the US, which may not prove an easy partner

31 JANUARY 2020 • 12:00PM



[LIZZY BURDEN](#) ECONOMICS REPORTER



Britain could become a pawn in America's trade wars with China and the EU

The year ahead in international trade will be a delicate dance of sorts as the age of Brexit dawns.

Britain has 11 months to negotiate a free trade agreement with the EU, which has already warned over the ambitious timetable. To speed up the process, it will stretch out a hand to Washington to put pressure on Brussels. But as it is tossed between the two it is at risk of being dragged into trade clashes between them, not to mention [America's ongoing conflict with China](#).

Today is a day for flag waving, but as naysayers point out, the EU-Canada agreement took more than five years to strike, and the EU-Japan and EU-Singapore agreements were each the products of more than four years of talks.

These precedents could act as blueprints for a UK-EU agreement, speeding up the process. The Prime Minister has said he wants an off-the-shelf "super Canada" deal that would provide easy access for services and financial services.

However, if a deal has not been reached by November – a month needs to be left for ratification – the default option is to fall back on World Trade Organisation rules, meaning that trade in goods and services with the EU would be subject to tariffs and customs checks. Financial firms would not be able to sell as easily to the EU, but the UK would be free to ignore all EU regulations. Neither scenario is likely, though, according to economists.

Most see the year ending with a fudge akin to [President Donald Trump's Phase One deal, a truce in the US-China trade war](#) that allowed him to boast about his deal-making abilities but kicked the hardest questions – regarding subsidies and the role of state-owned enterprises – down the road.

A similarly piecemeal approach to the UK-EU relationship could involve deals on goods this year, with tougher talks on services postponed until 2021. "Brexit likely will remain a process, not an event," says Samuel Tombs, chief UK economist at Pantheon Macroeconomics. This would leave Britain with little leverage in its own "Phase Two" with the EU.

For instance, a deal on fishing rights will be a priority for the EU this year: the Political Declaration makes clear that both sides need to reach a decision by July, and the European Fishing Alliance has been lobbying since the referendum to ensure that access to British waters is in the deal.

Fishing is politically important to Britain, especially in many of the Northern areas to which Boris Johnson owes his majority, and is crucial to keeping Scotland in the Union. But it comprises only 0.1pc of the economy so could slip through the net under EU pressure.

By contrast, financial services account for 6.9pc of output. Here, though, the EU will be gunning for a "level playing field": it has been unambiguous since 2017 about wanting to prevent the UK from becoming a type of Singapore-on-Thames by lowering standards to gain a competitive advantage.

Throughout the election campaign, Johnson emphasised the need for regulatory flexibility but this could be the price of ending this year with something to show.

The year ahead in EU-UK trade

Jan. 31 2020

Britain formally leaves the EU after 47 years at 11pm

March 1

The UK and EU agree a legal mandate for talks. Negotiations begin

June 30

Deadline to extend transition period. Target to conclude fisheries and financial services deals

Nov. 26

Deadline to conclude UK-EU agreement to allow for ratification

Dec. 31

Transition period ends

Jan. 1 2021

New UK/EU relationship begins

So **Britain will turn to America**. The Prime Minister wants to demonstrate his vision for a Global Britain and is expected to make a speech to the US Congress next month. Trump, for his part, has his eyes on better access to UK markets for US agriculture, food, cars and pharmaceutical products. Indeed, Steven Mnuchin, the US treasury secretary, joked at the World Economic Forum in Davos that he was disappointed Britain would not do a deal with the US ahead of the EU, given that it would be an easier negotiating partner.

Yet this week, the Government seemed to turn its back on America by confirming that the Chinese technology giant **Huawei would be allowed to build parts of the UK's 5G network**, ignoring US warnings about security.

Harry Broadman, managing director of Berkeley Research Group and a trade negotiator in the George W Bush and Bill Clinton administrations, says the decision was “certainly a fly in the ointment” for the US-UK deal. He adds, though: “It could be the case that Johnson is posturing now to put this on the table so that he has something to give up for something in return. As a trade negotiator, there’s a logic to that.”

Mnuchin also threatened to impose tariffs on UK cars in retaliation for Britain’s digital services tax, a 2pc sales duty that would mainly hit American technology companies such as Facebook and Google from April, and raise £1.5bn over four years. Johnson has picked a precarious moment to show he will not simply dance to the President’s tune.

Throw in the fact Britain has yet to replace Kim Darroch as ambassador to the US since he resigned in July and a US-UK deal looks even less likely by December.

Britain needs to “drop its starry-eyed optimism”, according to Sam Lowe, a senior research fellow at the Centre for European Reform. “The UK will not get an easy ride just because of its so-called special relationship with the US. If the UK resists US demands, particularly in the area of agriculture and food hygiene, then concluding a comprehensive free trade agreement could take years.”

Lowe is also concerned that Britain could become a pawn in America’s trade wars with China and the EU. Paris has agreed a temporary truce with the US, agreeing to postpone the collection of revenues from its own digital services tax in exchange for Washington delaying \$2.4bn of levies on French goods such as champagne.



Steven Mnuchin has expressed disappointment that Britain would not do a deal with the US ahead of the EU
CREDIT: DENIS BALIBOUSE /REUTERS

Meanwhile Sonny Perdue, the US secretary of agriculture, has denied that the US is trying to play the EU and UK off against each other as it applies pressure on them both to accept its food standards, including on chlorinated chicken, beef raised on growth hormones, and genetically modified crops.

Paul Dales, chief UK economist at Capital Economics, warns: "Talking to the US could influence UK-EU negotiations by either making it harder for the UK and the EU to reach a deal or by forcing the EU to fear that America's exports to the UK will undercut its exports."

It is an awkward triangle. On this dancefloor, Britain will have to be careful whose hand it holds and on whose toes it treads.

Link to Original Article: <https://www.telegraph.co.uk/business/2020/01/31/2020-will-year-uk-eu-us-trade-triangle/>