



# U.S.-U.K. Free Trade Agreement: Opportunities and Challenges for Washington State

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## U.S.-U.K. Relations: Building on a Historic Partnership

Through generations of shared triumphs and challenges, the United States (US) and the United Kingdom (UK) have forged a historic economic, political, social, and military partnership. Long considered the United States' closest and most important strategic ally, the UK is an economic power and, as the world's fifth-largest economy, it continues to be a hub for global finance. The US has considered the UK to be one of the most significant members of the European Union (EU), serving in many ways as a bridge between the US and the rest of Europe on key issues, as well as a gateway to the rest of the EU market for US trade and investment.

Substantial changes in the UK's economic relationship with the European Union (EU) and all its other trading partners will take place in 2021. Following a UK-wide referendum in June of 2016, European parties enacted a process for the withdrawal of the United Kingdom from the European Union (commonly known as "Brexit"), effective January 31, 2020. Currently, the UK remains in a transition period with the EU, with access to the European Union's single market and customs union scheduled to end by December 31, 2020.<sup>1</sup>

Although there is uncertainty around the outcomes of Brexit and the UK's withdrawal from the EU, Washington state needs to be ready to take advantage of new opportunities and mitigate the challenges of the UK's new economic status and preferential agreements it may forge with the rest of the world. The US-UK negotiations for a new Free Trade Agreement, which formally started in May of 2020, offer a way forward.

Such an agreement offers great promise and opportunity. Today, the US-UK relationship is valued at over \$260 billion in two-way trade annually. The UK is the single largest investor in the United States. British companies have invested more than \$560 billion in the United States, accounting for more than 15 percent of all inbound foreign direct investment (FDI) a key generator of employment across America.

The data for Washington state is similarly compelling, as the UK relationship represents a substantial trade and investment partner and job creator. The US Chamber of Commerce's most recent Transatlantic Economy 2019 Report shows that the UK accounts for nearly 20,000 jobs in the state and UK companies operating in Washington account for about 17 percent of total foreign affiliate employment in Washington. Historically, trade follows investment and the UK has been the largest source of greenfield FDI in Washington State representing 12 percent of investment. The UK is Washington state's single largest source of foreign investment. The case for growth in economic activity and jobs that could result from closer cooperation with the UK is important for the future of Washington state's economy.

The long debate about the UK's post-Brexit future in Europe is reaching an inflection point. By year's end, the UK and EU will have to determine how their trade and economic relations will proceed. The UK's departure from the European Union creates new opportunities for the UK to negotiate new preferential agreements with trading partners. These opportunities are met with corresponding challenges as the UK develops new trading rules of its own, something it has not done since EU membership in 1973. The UK has initiated negotiations with the United States,

Australia, New Zealand, and already completed negotiations with Japan. And, the UK has begun discussions to enter the Comprehensive and Progressive Agreement of Trans-Pacific Partnership (CPTPP). There are many unknowns, particularly how EU standards, rules and processes will be adopted by the UK in its new trade regime.

Washington state needs a strategy to maximize the potential opportunities that a US-UK agreement may bring.

The experience with other Free Trade Agreements (FTAs) and the recent lessons from the negotiation of the US Mexico Canada Free Trade Agreement (USMCA) provides building blocks for Washington state to pursue its interests and strengthen and deepen the already significant relationship with the UK. Key issues from agricultural, supply chains, manufacturing, and digital trade and services are in play. Similarly, there is interest in how the UK adopts innovative approaches to emerging issues and problems from health sciences and life-saving drugs, rules and standards based on science and risk assessment, and strong intellectual property protections. Fortunately, the US and UK appear to share many of the same objectives in the negotiations.

This briefing provides an overview of the ongoing trade negotiations, a discussion of Washington state's long standing relationship with the UK, and how the issues at play that could enable the state to benefit from such a bilateral deal.

## Challenges and Opportunities in 2021

As noted above, there are a series of unknowns that will influence US-UK negotiations as we advance.

- Details on the exact nature of the relationship with the EU will inform many negotiating positions for UK trading partners, particularly with respect to trade rules and standards. This will determine the degree of difficulty for reaching a deal.
- With the Presidential and Congressional elections in November, potential leadership changes in the US may require some adjustment in the negotiations. As other countries negotiate with the UK, the United States cannot afford to sit on the side lines – the US should take advantage of the Trade Promotion Authority (TPA) renewal process that has begun.
- Trade retaliation issues will need to be resolved. In addition to existing retaliatory tariffs imposed on UK exports of steel and aluminum pursuant to Section 232 and Section 301, the World Trade Organization (WTO) sanctioned Airbus retaliation remains in play and counter-retaliation is expected from the EU on US exports despite Washington state's repeal of the B&O aerospace tax provisions last Spring, consistent with the WTO rulings. The retaliatory tariffs were an issue in finalizing the USMCA, and it is likely to be the case in any US-UK FTA as well.
- The new protections being adopted in Europe and other countries known as the “digital services tax” or DST that harm US companies need to be resolved amicably through the

OECD negotiations. The expectation on the US side remains that this issue is not a formal part of the US-UK negotiations. USTR filed a Section 301 complaint against the UK after the talks started, but this will clearly influence the outcome of the FTA negotiations.

## Current Negotiations

Formal negotiations between the US and UK started in May 2020, and negotiations to date have been conducted virtually. Several negotiating rounds have taken place, and it is anticipated that there will be an exchange of market access offers later in the Fall. The scope and coverage of tariffs and their elimination or staging will be an issue. The trade-weighted average tariffs between the two countries are around 2%, but there are some larger duties on key products, such as textiles in the US and cars in the UK. The UK's discussions to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which should mean that many of the texts that were negotiated in the TPP and formed the basis of negotiations for USMCA will be a model for an agreement with the UK. In some areas, there may be a possibility to go farther given the close cooperation that the two sides already enjoy, as in the digital space and the UK's role as a significant player in financial services and insurance. Further debate around the treatment of health and life sciences, an issue unresolved in the USMCA, will no doubt be a focus of attention.

All of this will depend, however, on the extent to which the UK arrangement with the EU enables adoption of important texts related to science and risk-based standards between the US and the UK. This has major implications for Washington state's interests in agriculture.

## Washington State Linkages with the U.K.

As noted above, the US-UK trade relationship plays a pivotal role in Washington's economy. It supports more than 20,000 jobs in the state through trade and exports and nearly as many jobs through employment with UK subsidiaries. Washington state has long enjoyed a prosperous relationship with the UK. A large share of this has centered on our close supply chain relationships in the aerospace sector, but many other parts of the economy have also benefited from the UK as an export destination and trade partner.

Just looking at the UK's negotiating objectives provides evidence that we have many areas of mutual interests and potential benefits. For supply chains and intermediate goods, the reliance on which has become increasingly important due to the global pandemic, 62% of all US goods imported into the UK and 42% of UK goods exported to the US are used in supply chains. So, there is scope to enhance the relationship. Similarly, the UK wants to maximize its reach in areas like data flows, and AI, but have big ambitions for professional and financial services too. Notably, there is also potential growth for food processing and cooperation with defense-related industries.

A reflection of the importance of the UK's economic relationship with the northwest region is the UK Government Office in Seattle. The office is focused on strengthening political, economic and

business ties between Washington and the United Kingdom, with a particular focus on trade and investment. It was the first mini-consulate of its type that the British Embassy in Washington DC opened in the United States in 2013<sup>2</sup>. Further evidence of these strong economic ties is outlined below.

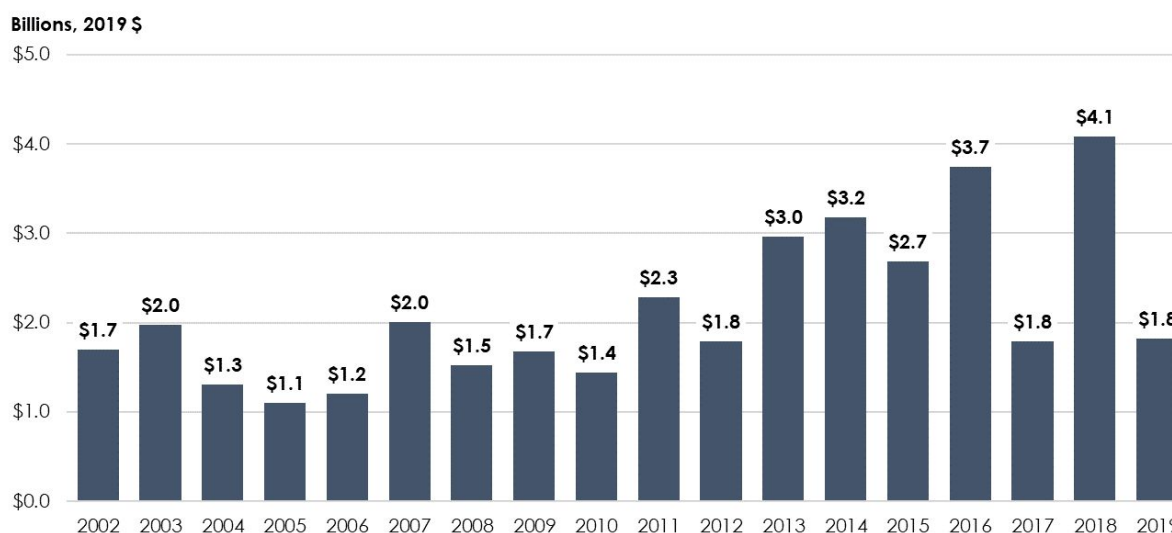
### Statewide Export and Port Trade Connections

The United Kingdom is one of Washington state's top export markets, consistently ranking among the top ten export destinations since 2002. Over the last decade, the UK ranks 6<sup>th</sup> in total Washington exports by value, accounting for 3.2% of total state exports over that period. Recently, the UK has accounted for 5.2% of state exports by value in 2018 and 3.1% in 2019. The UK imports a similar amount of Washington state goods as it does goods from Mexico and Taiwan.

A healthy economic relationship between the two nations has real benefits to the Washington state economy. Based on 2017 data, more than 20,000 jobs were supported by Washington state exports to the UK and nearly 20,000 Washingtonians were employed by UK subsidiaries.

Exports from Washington state to the UK have risen since the 2008-2009 recession from \$1.7 billion in 2009 to a peak of \$4.1 billion in 2018. Exports in 2019 were down significantly, though nearly all that decline was driven by a drop in aerospace exports (**Exhibit 1**). Civilian aircraft, electric machinery, such as wires and fiber optic cables, data processing machines, ultrasound equipment, plastics, pharmaceutical products, titanium, and salmon, are also top exports.

**Exhibit 1. Washington State Merchandise and Commodities Exports to the United Kingdom (Billions, 2019 \$)**

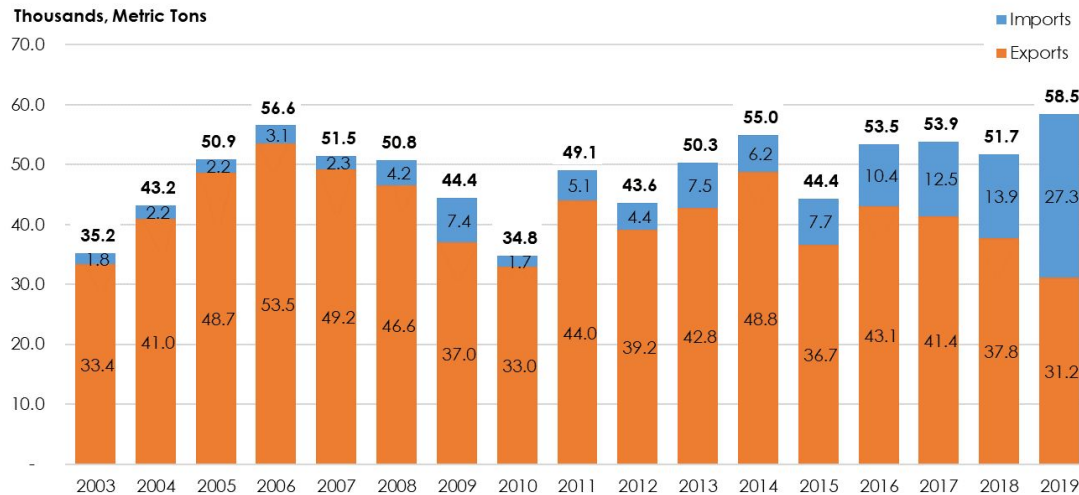


Sources: US Census Bureau, 2020; Community Attributes Inc., 2020.

Trade volume, measured by weight rather than value, has also increased over the last decade (**Exhibit 2**). Since 2003, Washington state has exported more goods to the UK than it has imported. The UK is an outlier in this respect; across all global trade partners, Washington imports exceed exports.

However, containerized imports from the UK have risen steadily since 2014 and reached a peak of 27,300 thousand metric tons in 2019. The large increase that year was driven by an uptick at the Port of Longview in imported petroleum coke, a fuel source and manufacturing component. Washington state imports of machinery, iron, steel, and nickel products from the UK also increased. Over the same period, Washington exported less salmon and forklifts to the UK, as seen in the downward trending export volumes.

**Exhibit 2. Washington State Containerized Port Trade with the United Kingdom (Thousands of Metric Tons)**



Sources: US Census Bureau, 2020; Community Attributes Inc., 2020.

### Exports to the UK by Congressional District

Each Washington State Congressional District exported over \$100 per capita worth of goods and services to the UK in 2019. Some districts export at higher levels, particularly districts 2, 7, and 9 (**Exhibit 3**). The high value of goods exports in WA-2 is due to aerospace manufacturing in that district, while districts 7 and 9 have a large amount of services exports per capita.

### Exhibit 3. Washington State Exports per Capita by District to the UK (2019 \$)

<b>District</b>	<b>Goods</b>	<b>Services</b>	<b>Total</b>
WA-1	\$208	\$373	\$582
WA-2	\$901	\$108	\$1,009
WA-3	\$146	\$76	\$222
WA-4	\$127	\$69	\$196
WA-5	\$154	\$90	\$244
WA-6	\$78	\$88	\$166
WA-7	\$215	\$694	\$910
WA-8	\$161	\$100	\$260
WA-9	\$405	\$886	\$1,291
WA-10	\$52	\$76	\$128
<b>Statewide Average</b>	<b>\$245</b>	<b>\$256</b>	<b>\$501</b>

Sources: US Census Bureau, 2020; Coalition of Services Industries, 2020; Puget Sound Regional Council, 2020; US Bureau of Labor Statistics, 2020; Washington State Office of Financial Management, 2020; Community Attributes Inc., 2020.

\*Services exports data is from 2018 and inflated to 2019 dollars.

In total, Washington state exported \$3.8 billion worth of goods and services to the UK in 2019, coming from every congressional district in the state (**Exhibit 4**).

### Exhibit 4. Washington State Exports to the UK by Congressional District (mils 2019 \$)

<b>District</b>	<b>Exports (mils \$)</b>
WA-1	\$439
WA-2	\$761
WA-3	\$167
WA-4	\$148
WA-5	\$184
WA-6	\$125
WA-7	\$687
WA-8	\$196
WA-9	\$974
WA-10	\$96
<b>Total</b>	<b>\$3,778</b>

Sources: US Census Bureau, 2020; Coalition of Services Industries, 2020; Puget Sound Regional Council, 2020; US Bureau of Labor Statistics, 2020; Community Attributes Inc., 2020.

## Leading Export Products and Supported Jobs by District

There is clear and compelling evidence that Washington state has a wide range of interests in expanding US-UK trade and investment. The Trade Partnership – an international economic consulting firm -- produces Congressional District-level estimates of exports by goods and services categories and associated employment. Although there is some time lag in the results, the relative magnitude of exports and employment impacts on district economies remains consistent.

- According to their research, in **WA-1**, which encompasses north King County and the Eastern portions of Snohomish, Skagit, and Whatcom Counties, exports to the UK supported 1,980 jobs in 2017.<sup>3</sup> Top exports are aerospace products and other high tech manufactured goods, including computer and electrical equipment, measurement instruments, and communications equipment. WA-1 also exports a large number of services, mostly made up of computer software.
- In **WA-2**, the northern Puget Sound area including the city of Everett, aerospace is also the largest export by value, followed by measuring instruments and fabricated metal products. These exports supported 3,430 jobs in the district.
- Lewis County and the counties along the Lower Columbia River make up **WA-3**, which exports cars, metal products, and electronics like semiconductors and computer equipment, supporting 1,010 jobs in 2017.
- In **WA-4**, which encompasses the central portion of the state including Adams, Benton, Franklin, Grant, Okanogan, and Yakima counties, exports to the UK supported 900 jobs in the district. Top exports included aerospace products and parts, metal products, fruits, tree nuts, and hops.
- **WA-5**, the eastern edge of the state, exports metal products, car parts, aluminum, and electronics. Like District 2 and 3, travel services are the top services export. Exports from WA-5 to the UK supported 1,280 jobs.
- Exports supported 730 jobs in **WA-6**, the Olympic Peninsula. Car parts, aerospace, and seafood were the largest exports.
- **WA-7**, the city of Seattle, exports aerospace products, seafood, and machinery, along with a significant amount of computer software services. These exports to the UK supported 3,770 jobs in the district.
- **WA-8** is made up of Eastern Pierce County, along with Chelan and Kittitas counties. This district's exports include aerospace, machinery, and electronics, and supported 920 jobs in 2017.
- **WA-9** is the Eastside of Lake Washington and south King County, including Bellevue and Kent. Exports from this district supported 4,430 jobs and are made up of aerospace products, computer equipment, and machinery. The 9<sup>th</sup> district also exported over \$100 million each of computer software services and air freight and port services.
- **WA-10** is made up of parts of Thurston, Pierce, and Mason counties, including Olympia, Shelton, and Puyallup. The 10<sup>th</sup> district exports car parts, food products, and plastics, supporting 540 jobs in 2017.

## Outlook and Key Considerations for Washington State and U.K. Trade: Digital Services and Agriculture

In both the leadup to negotiations and the talks surrounding a potential agreement, digital services are a significant issue and a growth opportunity in the evolution of the US-UK relationship. Washington state's status as a global hub of technology and innovation makes it well suited to benefit from global digital trade growth. E-commerce companies of all shapes and sizes in Washington state are increasingly using technology to connect with new customers worldwide. The tech sector is a significant driver of the state's economy, promoting job growth, exports, and



wealth generation. In 2018, there were roughly 247,700 workers employed in information, communication, and technology (ICT) jobs in Washington state. The opportunities for all Washingtonians of a growing and thriving digital economy brings added importance to the digital chapter of a US-UK FTA. The US and the UK are the world's leading exporters of digitally delivered services and digital innovation; the United Kingdom takes in 23 percent of US digitally deliverable services exports. They are also each other's largest e-commerce markets.

Computer software, as well as computer and data services, made up more than \$620 million in exports from Washington state to the UK in 2017.<sup>4</sup> These segments have grown substantially in the last few years, and the US and the UK are among each other's largest e-commerce markets. Current trade negotiations may present an opportunity for the UK to align its privacy standards more closely to those in the US, although the UK government has stated that it will continue to follow the EU General Data Protection Regulation as it stands.<sup>5</sup>

The leadup to trade negotiations hit a snag when the UK passed a 2% digital services tax in 2018. The tax went into effect in April 2020 and applies to firms with global sales of more than \$624 million (£500 million) and over \$31.7 million (£25m) in the UK. US officials have criticized the tax as largely targeting American firms. Digital trade is a major focus of the UK's negotiating objectives, and the US is using current talks to push for the tax's repeal.

This new flexibility to adopt US standards may also apply to food regulations. This is a difficult issue for the UK government, which must balance reducing tariffs with the interests of domestic farmers and consumers. The EU also has stricter guidelines on genetically modified food products.<sup>6</sup> Changing these restrictions could increase access for Washington farmers. A major question that will be addressed in these negotiations is the extent of the UK's market reorientation away from the European Union, with the potential of greater alignment and harmonization of standards and regulations between the two nations. The extent to which the United Kingdom retains its current European food standards or makes a decisive shift to acceptance of US standards could impact US and Washington state agriculture trade with the UK.

This longstanding European approach to regulatory issues, including food safety regulations and technical barriers to trade, has impacted agricultural trade between the US and Europe. Many US agriculture interests including farmers and ranchers in Washington state, have historically felt their input has been marginalized in regulatory discussions and decisions with the hope that this will not be the case in the US-UK negotiations.

Trade barriers and transportation costs have also impacted agriculture trade between Europe and the US and efforts to remove barriers and create a level playing field for Washington farmers and ranchers will impact some Washington state commodities more than others.

Washington state fruits and vegetables, including potatoes, apples, cherries and pears, are currently impacted by European tariffs. Removing these barriers through a US-UK FTA can potentially create new opportunities for Washington state exporters. For example, the total value of Washington apple exports to the EU in 2019 was \$1,270,864 with the UK accounting for almost all of that. Beyond fruits and vegetables, the US exports over \$1 billion worth of fish and seafood products to the EU each year, with Washington state second only to Alaska with \$302 million in

exports. The UK was the leading market for Washington seafood products last year (\$50 million.) The US wine industry, in which Washington state is a leading producer, also faces EU tariffs on imported wine and is another potential growth area with a new trade accord.

## Issues and Negotiation Priorities for Washington State

As the parties move forward with negotiations, priorities in these talks for Washington state might include:

### Goods Trade - Agriculture and Manufacturing

- Eliminate tariffs and non-tariff barriers for Washington state agriculture products, particularly dairy, fruits and vegetables, seafood, and wine.
- Harness the opportunity to expand the free flow of intermediate goods.
- Build on the current engagement in the manufacturing sector, including strengthening cooperation in security and defence related industries.
- Enhance regulatory cooperation and adopt science-based and risk-based provisions modelled after the USMCA chapters on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS)
- Make trade facilitation a priority given the importance of small and medium sized enterprises (SMEs) on both sides of the Atlantic. Ensure a constructive review of standards and efforts to develop a flexible framework that is good for both producers and consumers
- Increase access to the UK market for Washington state agriculture products including beef, dairy, fruits, seafood, and wine
- Build on USMCA template to promote state agriculture exports in the UK market

### Digital Trade and Services

- Build upon the USMCA digital trade chapter, ensuring that cross-border data flows and cloud computing are unimpaired, building on the strategic cooperation that already exists between the US and UK in areas like artificial intelligence and cybersecurity
- Expand opportunities for services market access in professional and financial services, including insurance
- Eliminate the UK digital services tax
- Institute customs simplifications for low-value shipments (including meaningful de minimis and informal clearance thresholds).
- Adopt a Technical Barriers to Trade chapter that allows for e-labeling and mutual recognition of testing and conformity assessments.
- Address Cross-border data flows. Include commitments to ensure the flow of data between the two economies and identify and address any potential unintended negative impacts on the ability to move data between the UK and EU.
  - Any commitments the UK makes in its FTA with the US should not jeopardize the UK's ability to secure an "adequacy" determination for Europe's General Data Protection Regulation (GDPR). There are concerns that if the UK agrees to a lower standard of data protection in the FTA, the UK may jeopardize its ability to secure the adequacy determination.

### **Intellectual Property Protection and Trade Rules**

- Strengthen existing disciplines to ensure transparency, due process and appropriate recognition of value in pricing for pharmaceuticals and biotech.
- Cooperate to build on existing successes to ensure greater regulatory compatibility

### **Investment**

- The UK private sector is consistently the top investor based on inbound foreign direct investment in Washington state and the FTA is an opportunity to ensure that this remains the case, and FDI remains a major job creator for Washington state.

### **Pharmaceuticals and Biotechnology Considerations:**

- Ensure transparency, due process, and appropriate recognition of value in pricing and reimbursing pharmaceuticals.
- Reinforce strong IP protections and enforcement. The US and UK have two of the world's greatest IP regimes and, therefore, should reinforce these mutually high standards to ensure continued industry dominance in both countries and set a global standard for the world to emulate.
- Increase regulatory compatibility in the pharmaceutical sector. The regulatory regimes in both countries are already quite strong, but the Agreement should further advance industry regulatory compatibility.

### **Timeline factors for Negotiations and Passage**

The United States Trade Representative (USTR) notified Congress of its intent to enter into negotiations with the UK under the provisions of Trade Promotion Authority (TPA). These provisions provide a guide to how the negotiations should be conducted and enable the Agreement to benefit from an up or down vote in the Congress; this authority expires on July 1, 2021. This means that whatever the outcome of the US elections and the disposition of the UK-EU negotiations, there will be little time to complete a deal under existing TPA procedures, which require the Executive Branch to notify Congress of its intent to sign an agreement by April 1, 2021, and proceed with the necessary requirements for a review of the texts and other analytical requirements before July 1. WCIT intends to work with our Congressional delegation on how best to proceed with these critical negotiations in the new year.

## Endnotes

1. Shayerah Ilias Akhtar, Congressional Research Service, *Brexit and Outlook for U.S.-UK Free Trade Agreement* (updated February 12, 2020), [Link](#).
2. Steve Wilhelm, "United Kingdom sends consul to re-establish official Washington state presence," *Puget Sound Business Journal*, (February 2, 2013), [Link](#).
3. Jobs by Congressional District were estimated by the Trade Partnership in 2017, using a different methodology than the one employed elsewhere in this briefing.
4. Government of the United Kingdom, Department for International Trade, *UK-US Free Trade Agreement*. March 2, 2020. [Link](#).
5. Heather A. Conley, "The Strategic Benefits of an Anglo-American Free Trade Agreement," *Center for Strategic & International Studies* (June 8, 2020), [Link](#).
6. Government of the United Kingdom, Department for International Trade, *UK-US Free Trade Agreement* (2020), pp. 16, [Link](#).