

# UK and US trade

Prospects for a free trade deal

June 2019



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An aerial photograph of a city skyline, likely New York City, viewed from across a large body of water. A cargo ship with red containers is visible in the lower-left corner. The word "Contents" is written vertically in large white letters over the image.

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# Executive summary

## The largest shift in the UK's foreign and economic policy in a generation

The UK's decision to leave the European Union (EU) represents the largest shift in the UK's foreign and economic policy in a generation. The result of the exit negotiations will reshape the flows of trade and investment to and from the UK and play a pivotal role in setting the UK's economic and political standing in the world for years to come.

The future trade relationship between the UK and EU remains uncertain, as the UK Parliament repeatedly rejected the withdrawal agreement negotiated during the past two years and the UK's departure has been delayed until 31 October. The new relationship with the EU may allow the UK to negotiate trade agreements with other nations in future, in the hope of capitalising on the economic gains they may present, whilst navigating the challenges of often highly complex trade negotiations.

In this context, EY has produced this short report considering the UK's relationship with the United States (US).

## The UK's relationship with the US will be a key determinant of the UK's success post-Brexit

As the world's largest economy, and on many measures the UK's most important single trading partner, the UK's relationship with the US will be a key determinant of the UK's success post-Brexit. Moreover, the stated willingness of the US President to negotiate a trade agreement with the UK warrants a closer examination of the current relationship and the prospects of a deal. Whilst there are political challenges and sensitivities over the introduction of new trade agreements, this report focuses on the economic arguments, and finds that:

### ▶ The US is the UK's largest export market

- ▶ The US is the UK's largest export market<sup>1</sup>, accounting for 13% of goods and 24% of services – in 2017 this represented exports totalling £84bn.<sup>2,3</sup>
- ▶ The most active goods trade between the US and UK takes place in machinery and transport equipment, which includes some of the UK's strongest export areas: motor vehicles and aerospace. Chemicals and related products provide the largest goods trading surplus, supported by sizeable exports of medicinal and pharmaceutical products.

- ▶ In services, trade links are strongest in skilled business services, such as accounting, legal, consultancy, engineering and design – representing 37% of exports from the UK to the US and 36% of imports.

These sectors represent areas where barriers to trade are relatively low, however, entering into a free trade agreement with the US may provide opportunities to address key obstacles to trade that still exist, particularly non-tariff barriers which often represent substantial additional costs.

### ▶ The lowering of substantial barriers to trade could be used to unlock potential trade growth

- ▶ In areas where trade is somewhat less developed, such as in food, beverages and tobacco, the lowering of substantial barriers to trade could be used to unlock potential trade growth. For instance, imports into the EU of dairy products and confectionary attract tariffs of 36% and 21% respectively of their final selling price.<sup>4</sup> However, an opening-up of the agricultural market may face opposition from the farming community.
- ▶ In a number of sectors, such as aerospace, pharmaceuticals and financial services, trade activity between the UK and US is relatively strong despite the presence of substantial barriers. By addressing the barriers facing these sectors, both countries may stand to gain, particularly since these sectors are likely to have the capacity to react more quickly to the increased bilateral demand for trade that may result.

### ▶ The UK and the US enjoy one of the world's largest bilateral foreign direct investment (FDI) relationships

- ▶ The US is the single largest investor in the UK, with total outstanding investments of £351bn at the end of 2017, representing approximately 26% of outstanding foreign investments into the UK.<sup>5</sup>
- ▶ The UK also invests heavily in the US. At the end of 2017, the UK accounted for approximately 13% of all foreign investment outstanding in the US – making it the single largest investor in the US.<sup>6</sup>
- ▶ Any trade deal with the US should consider the benefits offered by such investments, which provide opportunities to share knowledge, encourage collaboration and drive innovation.

<sup>1</sup> Not counting the EU bloc as a whole.

<sup>2</sup> In order to ensure consistency, the data in this paper refers to 2017, unless stated otherwise. This is the latest year for which every indicator presented in this study is available.

<sup>3</sup> Excluding travel, transport and banking. Sources: HMRC (trade in goods), ONS Pink Book (trade in services).

<sup>4</sup> Source: WTO Tariff Profiles 2018.

<sup>5</sup> Source: Foreign direct investment involving UK companies (2017), Office for National Statistics (ONS).

<sup>6</sup> Source: BEA, Direct Investment Position on a historical cost basis.

## EY viewpoint

There is a strong desire in both the UK and US business communities to continue successful trade and investment relationship. EY's 2017 UK Attractiveness Survey found that businesses see a trade deal with the US as the top priority, with 73% of respondents identifying the US as one of the countries that the UK should prioritise in trade negotiations. EY's 2019 UK Attractiveness Survey demonstrated a greater resilience of US investors, compared to investors from other regions, to the current political and economic uncertainties in the UK. In particular, the results of the investor survey indicate that US companies are nearly three times less likely than Asian investors to have reduced their investment into the UK. US companies are also less likely to have paused their investment projects in the UK.

When it comes to the potential for trade deals in specific sectors, the US may be prepared to do deals for sectors that are perceived to benefit the US, and adopt a more protective stance where US jobs in the sector are perceived to be at direct risk. For example, that could mean that prospects are good for a UK-US deal in sectors such as chemicals, pharmaceuticals, and ICT equipment, where trade barriers in both directions are currently high and both sides will perceive opportunities to expand their exports. Other sectors where trade barriers are high and there is scope to grow trade may meet more resistance; for example potential trade deal in food and beverages could be stalled by domestic regulatory standards on each side.

Greater cooperation through the negotiation of a FTA and harmonisation of regulatory approaches has the potential to further increase the cross-border Merger and acquisitions (M&A) activity between UK and US companies.



# Prospects for a UK-US trade deal

## There are challenges to reaching an agreement but goodwill exists on both sides

The prospect of the UK leaving the single market and the customs unions represents a significant recalibration of forty years of trade policy. The UK Prime Minister's visit to the newly-instated US President in January 2017 and the US President's working visit in July 2018, followed by the state visit in June 2019, highlighted the importance that the UK places on working towards a trade agreement with the US.

There are clearly challenges to this being achieved in practice, such as the economic and trade priorities of the current administration, and the evolving nature of the relationship between the US and the UK. Challenges notwithstanding, there is goodwill and intent on both sides of the Atlantic for a deal to be done, with common perception that much could be gained. In that context, it is worth examining the current characteristics of the economic relationship between the US and the UK, and thus where the opportunities lie for a mutually beneficially free trade agreement.

## The US is already the UK's single largest trading partner

The US and the UK already enjoy a significant economic relationship. The US is the single largest market for UK exports of goods and services, and in return the UK is the US' largest services exports market, and fifth largest for goods.

However, the relationship goes beyond trade in goods and services; the US is the largest source of FDI into the UK and the number one destination for outgoing UK FDI, whilst M&A activity between the two countries is also highly significant. To some degree, this may be a result of the lack of any formal trade deal beyond standard WTO arrangements: with significant tariff and non-tariff barriers in place across a number of sectors, FDI and

M&A activity into the UK acts partly as a substitute for exporting. However, aspects of a new trade deal, such as regulatory alignment, could provide significant scope for growth in both trade and investment activity between the two countries.

## There is scope to reduce barriers to trade in many sectors

The trade relationship between the UK and the US is governed by the respective relationships that the US and the EU have via the World Trade Organisation (WTO). Both the US and the EU have in place a number of sector specific tariff barriers that apply to imports from third party countries who are otherwise not party to a Free Trade Agreement (FTA).

Until recently, tariff barriers have steadily reduced over time, due to successive rounds of discussion and negotiation at the WTO level. The most common products for which significant barriers remain are commonly within agriculture, where domestic lobbies to protect farmer incomes from world prices are particularly strong in both the US and the EU. However, effective from June 2018, the US imposed additional duties of 25% and 10% respectively on imports of steel and aluminium from the EU. This decision was followed by the EU applying retaliatory tariffs on a range of products, including whiskey, motorcycles and other selected goods. The tables show the bi-lateral tariff barriers that apply to imports/exports from the US-EU and vice versa – these range from 0.5% on imports into the US of wood and paper, to 35.9% on imports into the EU of dairy products.

In addition, there are regulatory, legal and other barriers that limit trade that are collectively known as non-tariff barriers (NTBs). This can include barriers imposed directly on imports, such as quotas, prohibitions, or customs procedures, but may also extend to equivalent export barriers – in both cases these represent barriers applied at the border.<sup>7</sup>

Often, more widespread barriers exist 'behind' the border. This could include differences in legislation in different markets, leading to differences in product safety compliance, technical standards, or hygiene, which can be particularly prevalent in agriculture and food and drink. For example, the EU restricts the import of US beef due to the regular use of growth hormones. Similarly, the US prohibits imports of some pasteurised cheese and certain cured meats from the EU. These barriers can have a significant costs to prospective exporters, often far more significant than the actual tariff barriers in place.

As illustrated in Figure 3, the largest non-tariff barriers appear within the food and beverages category, with substantial NTBs reaching 57% on imports into the EU from the US and 73% on imports into the US from the EU. Elsewhere, motor vehicle trade, aerospace and financial services stand out as sectors where there may be scope for working towards reducing relatively large barriers to trade.

Figure 1: US ranking in the UK's trade and FDI flows



Sources: ONS, HMRC, EY European Investment Monitor (EIM)

**Figure 2: Tariff summary on US and EU imports, (percentage from the selling price)<sup>8</sup>**

Products	US Imports	EU Imports	Products	US Imports	EU Imports
Animal products	2.2%	15.5%	Minerals and metals	1.7%	2.0%
Dairy products	18.3%	35.9%	Petroleum	1.8%	2.5%
Fruit, vegetables, plants	4.8%	10.3%	Chemicals	2.8%	4.6%
Coffee, tea	3.2%	6.0%	Wood, paper, etc.	0.5%	0.9%
Cereals and preparations	3.1%	12.3%	Textiles	7.9%	6.5%
Oilseeds, fats and oils	7.4%	5.2%	Clothing	11.6%	11.5%
Sugars and confectionery	15.7%	21.1%	Leather, footwear, etc.	3.9%	4.1%
Beverages and tobacco	18.6%	19.3%	Non-electrical machinery	1.2%	1.8%
Cotton	4.8%	0.0%	Electrical machinery	1.5%	2.5%
Other agricultural products	1.1%	3.2%	Transport equipment	2.9%	4.7%
Fish and fish products	0.7%	11.6%	Other manufacturing	2.2%	2.3%

Source: WTO Tariff Profiles 2018

**Figure 3: Non-tariff barriers by product and service category, expressed as tariff equivalents (percentage of final selling price)**

Products and services	US Im	EU Im	Products and services	US Im	EU Im
Food and beverages	73.3%	56.8%	Wood and paper products	7.7%	11.3%
Chemicals	21.0%	23.9%	Air transport	2.0%	2.0%
Pharmaceuticals	9.5%	15.3%	Maritime transport	8.0%	8.0%
Cosmetics	32.4%	34.6%	Finance	31.7%	11.3%
Office and ICT equipment	22.9%	19.1%	Insurance	19.1%	10.8%
Electronics	6.5%	6.5%	Professional services	3.9%	14.9%
Motor vehicles	26.8%	25.5%	Communication services	1.7%	11.7%
Aerospace	19.1%	18.8%	Construction	2.5%	4.6%
Metals and metal products	8.5%	6.0%	Personal and cultural services	2.5%	4.4%

Source: European Commission Directorate-General for Trade

Given the already very strong trade relationship and wider economic ties between the US and the UK, there seems to be plenty of opportunity for growth should the two countries be able to come to a free trade agreement. However, policy makers and businesses should seek to understand where the most significant

opportunities lie, and to this end it is worth understanding current trade barriers in the context of the extent of existing trade relationships by sector. The remainder of this document explores these dynamics in more detail to shed light on the sector-specific trade relationships between the two countries.

<sup>7</sup> For further discussion, see *Non-tariff measures and the WTO (2012)*, Robert W. Staiger, WTO.

<sup>8</sup> The table does not reflect the additional duties introduced by the US and the EU in 2018.

## Understanding the opportunity

### The UK enjoys a significant trade surplus with the US

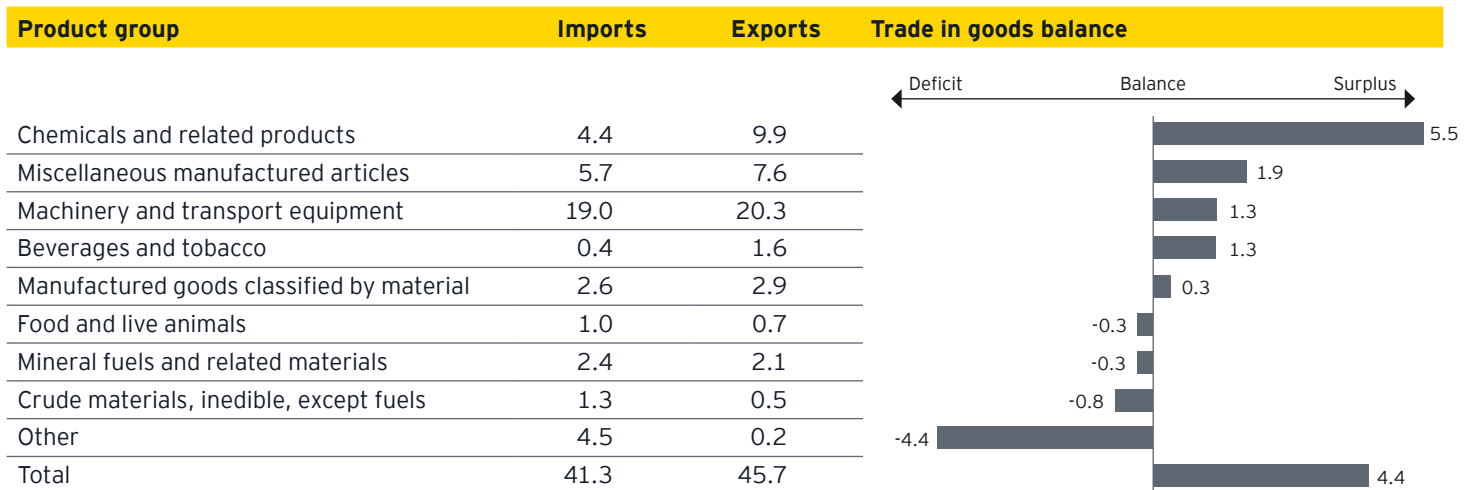
From the UK's perspective, a significant trade surplus with the US has historically been run, which was worth £33.9bn in 2017. This is in stark contrast with both the UK's overall trade position, which registered a deficit of £25.9bn in 2017, and the UK's trade deficit of £67.0bn with the EU. The UK's trade surplus with the US is made up of £29.5bn in services and £4.4bn in goods.<sup>9</sup> Overall, the US accounts for around 13% of goods exports from the UK and 24% of services exports, making it by far the UK's single largest export market.

However, from the US perspective, using different data sources, the UK is running a trade deficit of £2.2bn in goods and £9.8bn in services. Trade statistics are notoriously hard to calculate, and countries routinely disagree. These differences are known as trade asymmetries, and are common worldwide in trade statistics. Trade in services in particular is harder to measure than for goods, which leads to bigger asymmetries. The UK records a services surplus with the US of £29.5bn, the US

records a surplus with the UK of £9.9bn, and the aggregate of those two is a £39.4bn asymmetry, or around \$50bn. One component of this asymmetry is due to the way the UK Crown Dependencies such as the Channel Islands are accounted for in the data, as the US includes these as part of the UK, but they are excluded in the UK data sources. Nonetheless, there is no reason why trade needs to be balanced between any given pairing of countries, and the aggregate flow of exports and imports is a better measure of the strength of the trade relationship.

The most active goods trade between the US and UK takes place in machinery and transport equipment. This includes some of the UK's strongest export areas: motor vehicles and aerospace. Elsewhere, chemicals and related products provide the largest goods trading surplus, supported by sizeable exports of medicinal and pharmaceutical products. Meanwhile, trade in food, beverages and tobacco is less developed, reflecting relatively higher barriers to trade, as noted previously. This compares similarly to UK trade with the EU, where machinery and transport equipment is the largest trade category by value for both imports and exports, followed by chemicals.

Figure 4: Trade in goods with US from UK data, 2017, £bn



Source: HMRC

<sup>9</sup> The UK's surplus in trade in goods with the US remained at £4.4bn in 2018. UK exports of goods increased to £48.8bn, and UK imports reached £44.5bn. Sources: HMRC (trade in goods), ONS Pink Book (trade in services).

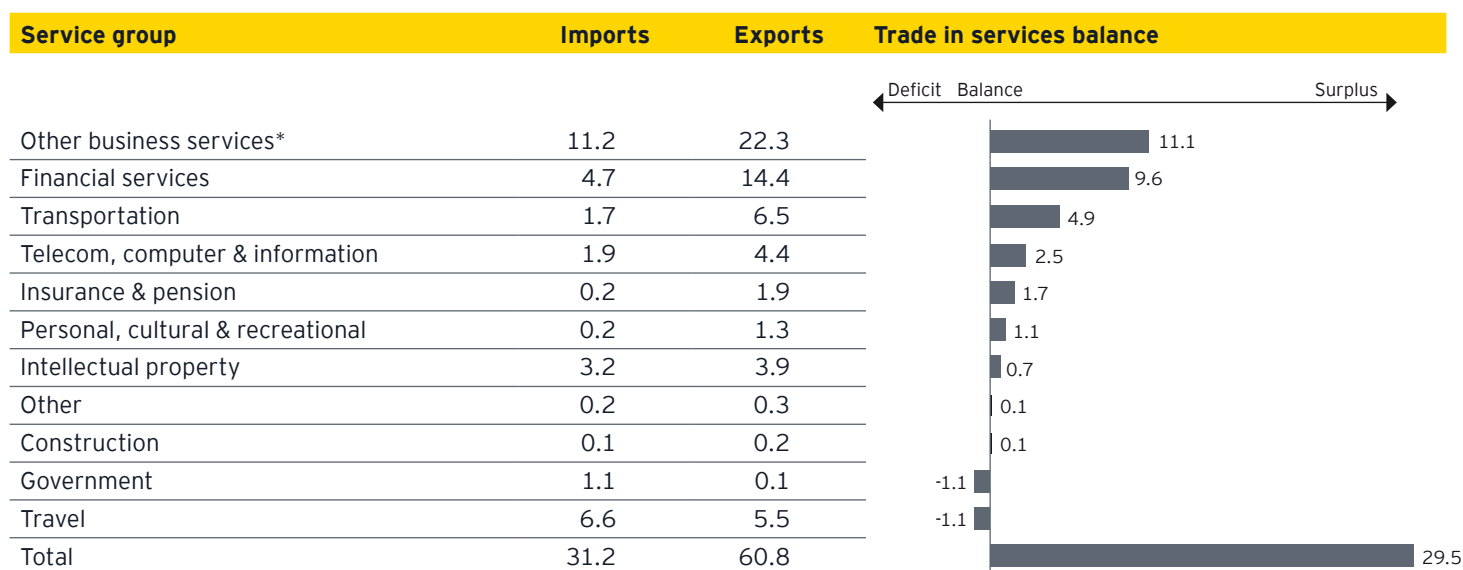


**Figure 5: Trade in goods with UK from US data, 2017, £bn**



Source: Bureau of Economic Analysis, Converted from USD at 2017 average exchange rate

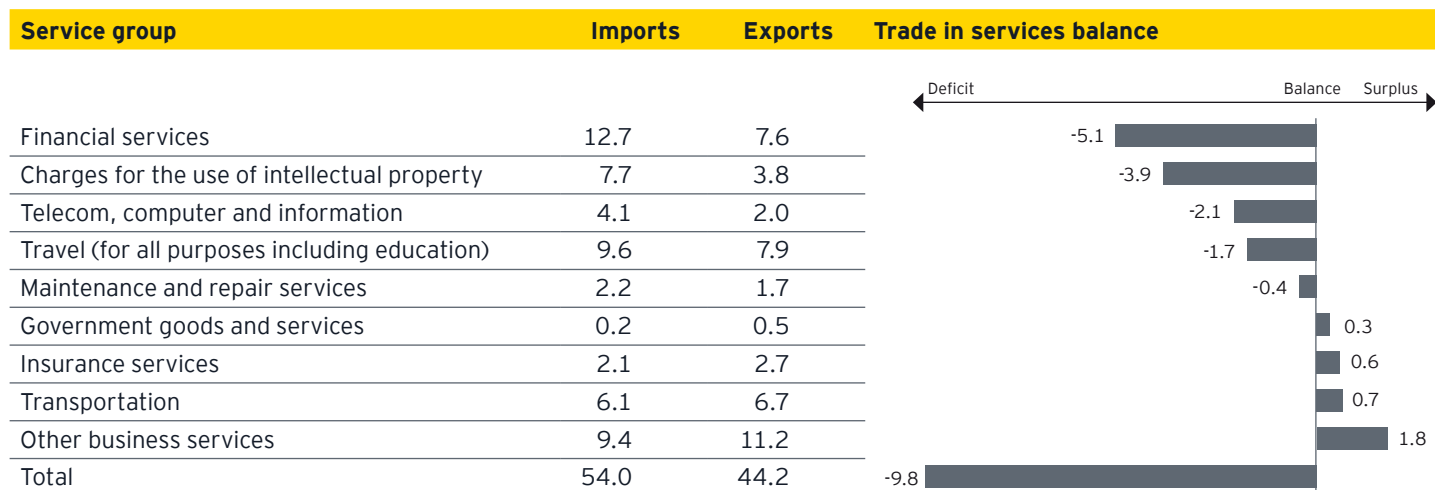
**Figure 6: Trade in services with US from UK data, 2017, £bn**



\* A range of services, including operational leasing, legal, accounting, management consulting, architecture, design, advertising & market research, engineering etc.

Source: ONS Pink Book

**Figure 7: Trade in services with UK from US data, 2017, £bn**



Source: Bureau of Economic Analysis, Converted from USD at 2017 average exchange rate

In services, trade links are strongest in skilled business services, such as accounting, legal, consultancy, engineering and design – representing 37% of services exports from the UK to the US and 36% of imports.<sup>10</sup> Both the UK and the US claim to be running large surpluses in services trade. This is particularly seen with both claiming surpluses in the provision of financial services. The scale of disparity here is considerable, with the total estimates being off by more than £39bn: the US says it exports almost twice as much in the way of services to the UK than the UK imports from the US.

Traditional measures of trade discussed above record the gross flows of goods and services between countries, not how much value a country adds in producing goods and services for export. However, with multinational businesses operating global supply chains this can be a misleading picture. Measurement of value-added in global trade is still in development; it is not easy to identify value add when goods and components cross borders many times. However, in time this promises to give a much richer picture of interdependencies, such as global supply chains.

### Significant opportunities for future growth exist in the sectors where trade barriers are currently high

Tackling some of the barriers to trade, both in terms of tariffs, but also considering the regulations facing these goods may present opportunities to further enhance well developed trade links, whilst also promoting the growth of less advanced trade flows.

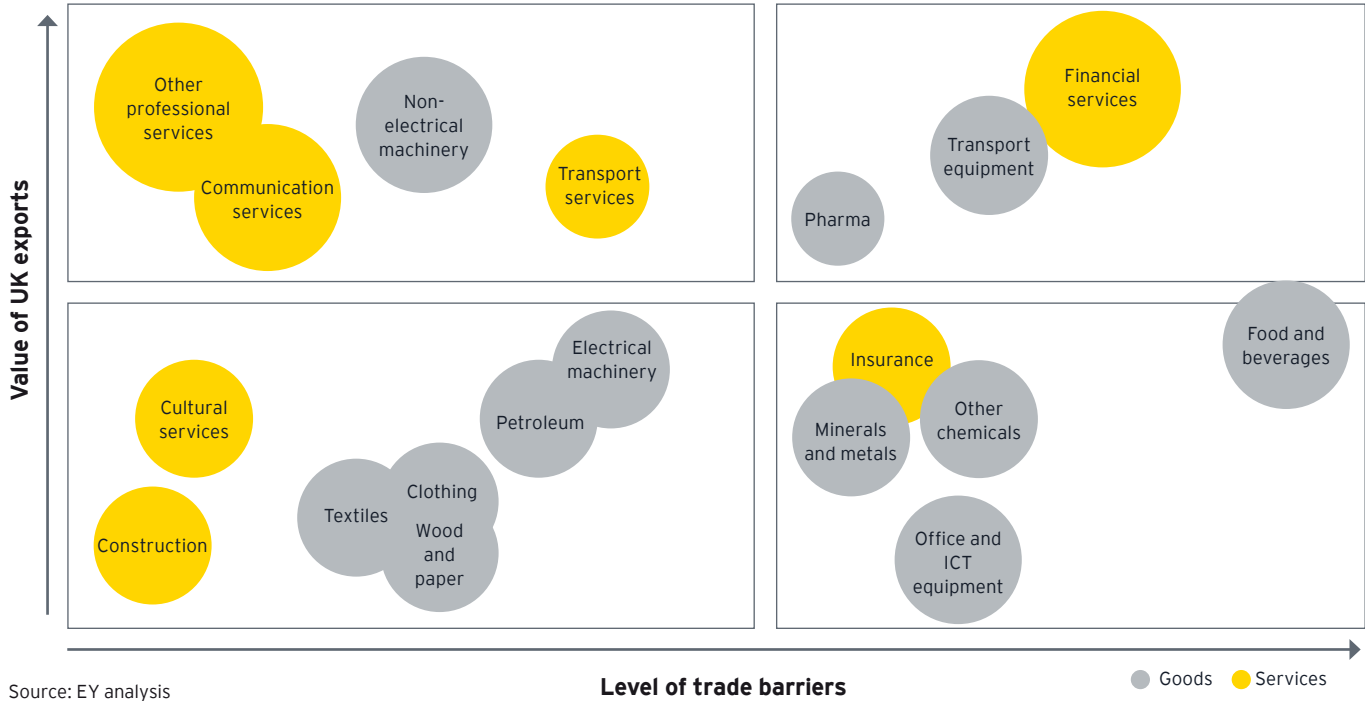
To understand the size of the opportunity, we have taken the current value of the trade relationship by sector – looking at UK imports and exports to the US separately, and mapped them against existing tariff and non-tariff barriers (see Figure 8 and Figure 9).

Our hypothesis is that where there are currently high tariff and non-tariff barriers and high values of trade, we could expect to see further growth in trade flows. This would include professional services, aircraft, financial services, and transport equipment (e.g., automotive).

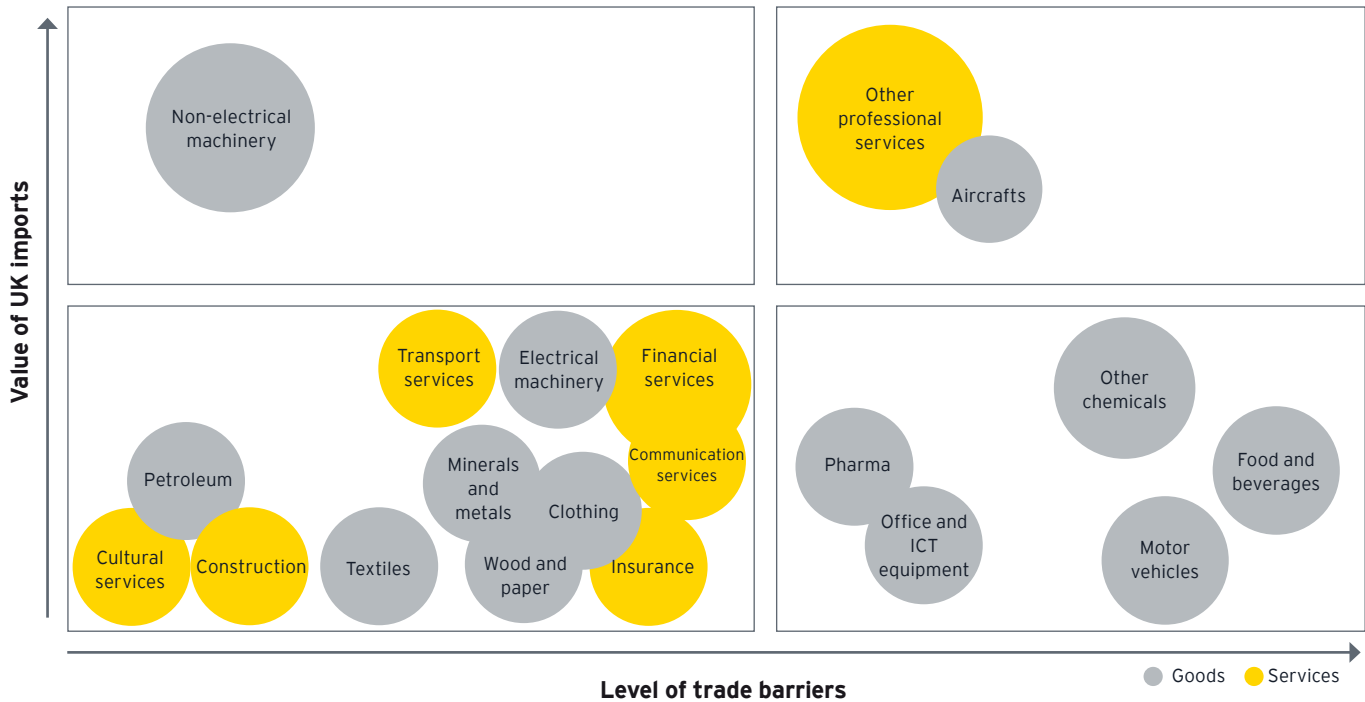
Equally, where trade values are low, but barriers are high, this may represent an opportunity for growth. This would include sectors such as food and beverages, chemicals and UK imports of US vehicles. Where current tariff levels are low, regardless of current values we would only see limited opportunities for future growth.

<sup>10</sup> ONS Pink Book.

**Figure 8: Barriers and value of UK exports to the US**



**Figure 9: Barriers and value of UK imports from the US**



# Cross-border investment potential

## It's not just about trade

There is a robust relationship between the US and UK in terms of FDI and M&A. This is aided by a shared language, similar business culture and highly developed legal systems, as well as the fact that investment acts as something of an alternative route to market in the presence of high barriers to trade.

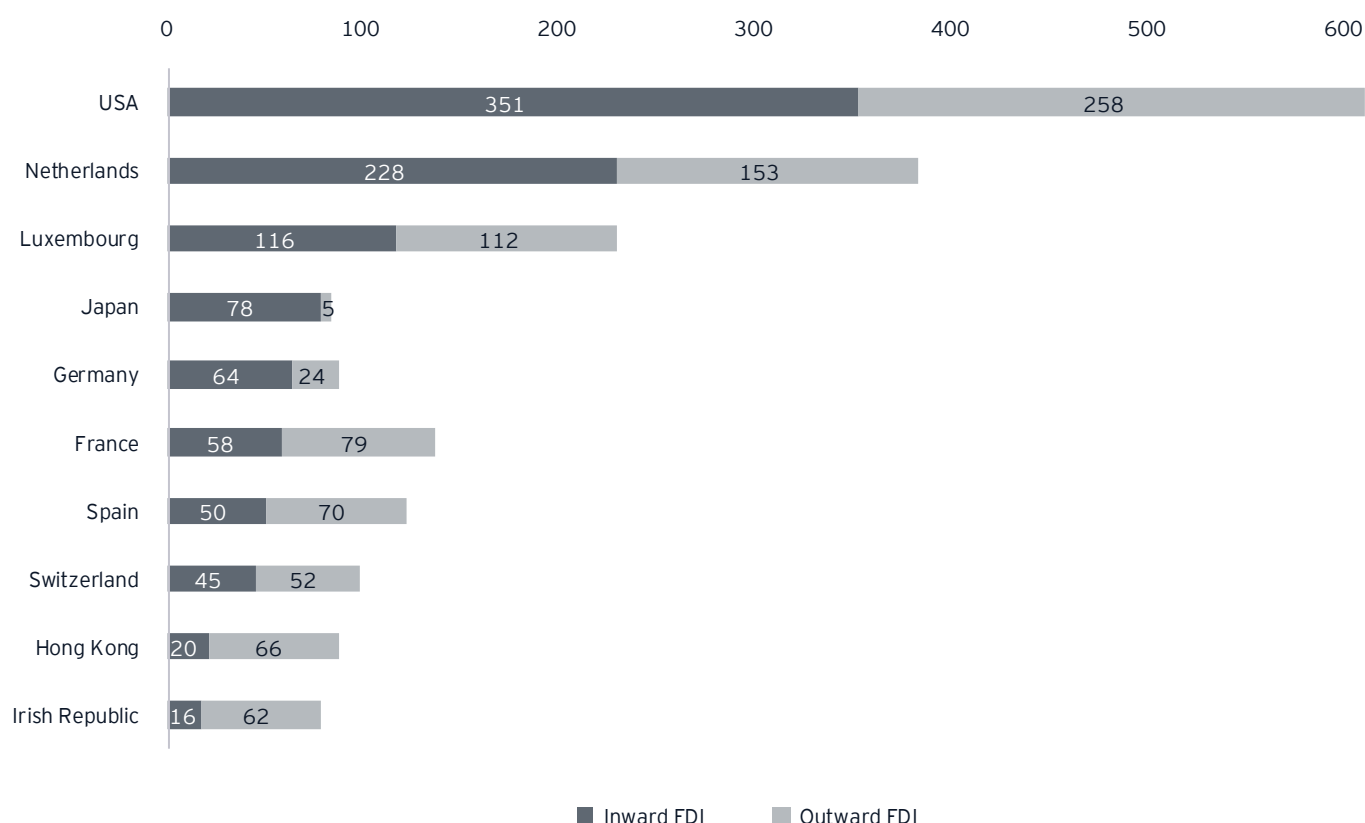
Creating an environment conducive to cross-border investment may become increasingly important in counter-balancing the negative impacts that the Brexit negotiation process may have on the attractiveness of the UK as a destination for foreign investment.

Whilst trade agreements are not normally targeted at encouraging FDI, the potential for greater regulatory alignment could pave the way for even greater inward investment, as firms

should find it easier to manufacture products with common standards. In turn, greater FDI could play an important role in encouraging innovation through knowledge-sharing across both the UK and the US.

Cross-border investment between the two countries starts from a relatively strong position. As illustrated in Figure 10, the US is the single largest source of FDI into the UK, with investments totalling £351bn at the end of 2017, equivalent to 26% of outstanding foreign investment into the UK. This was substantially higher than the next largest investor in the UK, the Netherlands, at £228bn. The US is the single largest destination for UK investment overseas. At the end of 2017 UK businesses had investments of £258bn in the US which supported total earnings flowing back to the UK of £16.3bn. In parallel, US earnings on UK investments totalled £22.0bn.<sup>11, 12</sup>

**Figure 10: Top 10 UK FDI markets, inward and outward, 2017, £bn**



Source: ONS

<sup>11</sup> Foreign direct investment involving UK companies (2017), ONS.

<sup>12</sup> Based on data from the Bureau of Economic Analysis (BEA), the UK is the single largest foreign investor in the US, accounting for 13% of FDI in 2017, equivalent to £420bn (\$541bn). Source: BEA, Direct Investment Position on a historical cost basis.

EY's European Investment Monitor (EIM) tracked investments in over 1,200 UK-based projects by US businesses between 2014-17 alone, creating almost 65,000 new jobs in the UK. This flow of investment is reciprocal – new investments from 2014-17 supported over 130 projects across the US, creating or retaining over 15,000 jobs.<sup>13</sup>

US investment into the UK has been directed largely at the

finance and business services sector, which accounted for over a third of projects and supported jobs. Manufacturing, transport and communications were also prominent sectors in terms of projects, whilst retail and hospitality are associated with particularly strong supported job numbers. In the opposite direction, UK investment in the US appears to be geared even more towards finance and business services and manufacturing.

**Figure 11: Number of FDI projects, 2014-17**

Industry	From the US to the UK				From the UK to the US			
	2014	2015	2016	2017	2014	2015	2016	2017
Agriculture & raw materials	9	14	9	11	0	1	0	0
Construction	3	6	0	3				
Education & Health	15	26	0	0				
Power and Utilities	6	7	8	8				
Finance & business services	166	164	164	175	16	3	13	2
Manufacturing	76	54	58	86	17	21	18	12
Retail & hospitality	31	37	34	29	0	1	9	1
Transport & communications	18	24	14	19	5	0	0	0
<b>Total</b>	<b>324</b>	<b>332</b>	<b>287</b>	<b>331</b>	<b>38</b>	<b>31</b>	<b>50</b>	<b>16</b>

Sources: EY European Investment Monitor (EIM), EY US Investment Monitor (USIM)

**Figure 12: New jobs supported (where disclosed), 2014-17**

Industry	From the US to the UK				From the UK to the US <sup>14</sup>			
	2014	2015	2016	2017	2014	2015	2016	2017
Agriculture & raw materials	318	420	429	211				
Construction	31	415	0	255				
Education & Health	184	832	0	0				
Power and Utilities	215	177	181	256				
Finance & business services	8,229	4,476	9,158	7,397	2,820	1,860	2,107	180
Manufacturing	3,533	1,257	2,154	2,821	1,161	1,113	2,968	940
Retail & hospitality	498	3,580	8,151	6,578				
Transport & communications	402	884	382	997	190	0	0	0
<b>Total</b>	<b>13,410</b>	<b>12,041</b>	<b>20,455</b>	<b>18,515</b>	<b>4,171</b>	<b>3,423</b>	<b>5,472</b>	<b>2,720</b>

Sources: EY European Investment Monitor (EIM), EY US Investment Monitor (USIM)

<sup>13</sup> Within the investment monitor, not all investments have a stated employment impact associated with them. This suggests that the 15,000 job impact represents a somewhat conservative estimate.

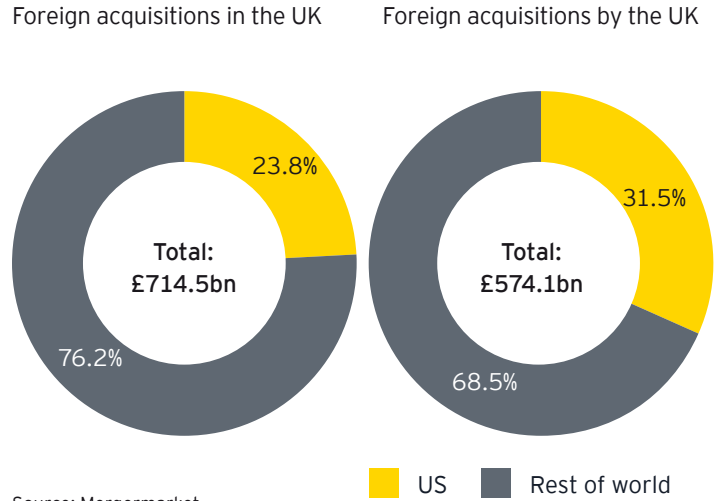
<sup>14</sup> Includes new jobs and jobs that were retained as part of investment projects.

### The UK and US businesses are active on the cross-border M&A market

There is also significant cross-border M&A activity with US firms spending £42.0bn on acquiring UK firms in 2017, with a reverse flow of £92.5bn from UK firms.<sup>15</sup> Between 2013 and 2017, 31% of foreign acquisitions by UK companies by value were of US companies, representing £180.7bn. Meanwhile, US companies accounted for 24% of foreign acquisitions of UK companies, totalling £169.9bn.

Among the drivers of this activity between the UK and the US are the cultural similarities shared across the two countries and the regulatory synergies that exist between them. With greater cooperation between the US and the UK through the negotiation of a FTA, taking advantage of opportunities to further harmonise regulatory approaches where mutually beneficial, the potential for such cross-border investment and collaboration may be increased further.

Figure 13: Value of UK M&A activity (where disclosed), 2013-17, £mn



Source: Mergermarket



<sup>15</sup> In 2018, the value of M&A deals in the UK by US firms increased twofold to £84.2bn, while the UK companies spent £32.4bn on acquisitions in the US.



## A UK-US trade deal – what are the obstacles?

In February 2019 the UK and US agreed a continuity trade deal to allow firms to keep trading post-Brexit as they do today. This mutual recognition agreement simply replicates the current deal between the EU and US on technical standards for exported goods. The UK's broader aim remains 'to strike an ambitious new free trade agreement with the US' post-Brexit. And Donald Trump has promised that a UK-US trade deal will be "done quickly and done properly" after Brexit.

However, despite the potential for mutual economic advantage, there are a number of obstacles that could prevent the UK and US reaching a deal. These include the US administration's escalation of trade disputes; concerns over standards in food and healthcare; objections to the UK's industrial policy; moving away from the UK's existing regulatory alignment with the EU; and the need for dispute resolution mechanisms.

The Trump administration has challenged existing trade arrangements that it regards as being unfavourable to US economic interests. For example, the levying of steel and aluminum tariffs on some of America's closest allies in 2018 demonstrates that historical ties may not carry much weight.

In March 2019 the US outlined its goals for a free trade deal with the UK. The list of priorities, which runs to 18 pages, makes clear that the US will be seeking major concessions in exchange for an agreement, in particular 'comprehensive access' for agricultural goods by reducing or eliminating tariffs and existing EU regulations.

Concerns have been raised in the UK media over whether such a deal could see UK supermarkets stocked with foods that do not meet current EU safety standards. Regardless of whether this is really food safety or animal welfare, relaxing sanitary and phytosanitary standards in the farm industry (e.g., selling chlorine-washed chicken) will be politically contentious. Although there could be substantial cost savings for lower income UK households if there were a relaxation of EU regulations.

On the NHS, the Prime Minister's previous remarks have left open the possibility of greater involvement of US firms in healthcare, as long as services remain free at the point of delivery. This, however, might be a difficult sell politically. One of the main points of opposition to the proposed Transatlantic Trade and Investment Partnership (TTIP) deal between the US and EU was

fear over further 'privatization' of the NHS. More recently critics have pointed out that full market access for US products could potentially end NHS controls on medicine costs in favour of US-style direct-marketing of drugs. The Prime Minister has faced repeated questions in Parliament urging her to rule out any deal that would give US firms a foothold in British healthcare.

The US might also push for the UK to roll-back on some elements of its industrial strategy, particularly where there is direct state support for UK industry. For example, the US Trade Representative's annual report has previously cited the UK's decision to subsidize Rolls-Royce for the development of aircraft engines as a barrier to trade.

Setting up a dispute resolution mechanism sounds like it should be a dull, technocratic concept that doesn't attract wide public interest. However, in practice dispute resolution means surrendering some sovereignty to a supra-national body, which is exactly what people rejected in voting to leave the EU. The prospect of an unelected body, not accountable to UK parliament or voters, determining food and healthcare safety standards has the potential to infuriate public opinion.

These examples are all part of a wider issue of the UK's current regulatory alignment with the Customs Union and Single Market, which leaves a significant gap in regulatory standards with the US. Aligning closer to the US would involve an inevitable trade-off with disentangling the UK from EU standards and in so doing enhancing non-tariff barriers with the EU. All this points to some practical difficulties ahead in reaching a deal.

The US is in a strong position given the relative size of the UK and US economies, and the need for a post-Brexit UK to sign trade deals (that is, after all, the basis of the economic argument for leaving the EU). Coupled with this imbalance of power, there is also an imbalance in the negotiating capacity of the two sides; whereas the US Trade Representative has decades of experience in doing deals, this will be one of the first trade deals Whitehall has negotiated in 40 years.

The price of that deal is likely be the opening up of hitherto protected segments of the UK economy, and a resulting decoupling from the EU. This dilemma ultimately sits at the heart of Brexit; the UK at some point needs to make a clear choice.



EY's UK Attractiveness Survey is part of the EY Economics for Business Programme, which provides knowledge, analysis and insight to help businesses understand the economic environments in which they operate.

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EY-000096436.indd (UK) 06/19. Artwork by Creative Services Group London.



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