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A Natural Partnership
The Possibilities of a UK-US Trade Deal

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Foreword by Sarah Elliott, Lady Elliott of Mickle Fell
Director of the UK-US Special Relationship Unit

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About the Author

Catherine McBride OBE is a freelance economist specialising in trade economics. She served on the UK's Trade and Agriculture Commission from 2021 to 2024, scrutinising the UK's Free Trade Agreements with Australia and New Zealand, as well as the UK's accession to the CPTPP. Catherine received her OBE for her services to economic commentary and trade policy in the UK. She has written numerous papers on trade, agricultural policy, financial services regulation, and corporate governance. She has also co-authored papers on geopolitics and the impact of climate policy on economic growth, and regularly speaks at conferences about international trade and Brexit. Previously, Catherine worked in financial services in the City of London, for the Institute of Economic Affairs and for the Legatum Institute, now known as the Prosperity Institute.

Foreword

by Sarah Elliott, Lady Elliott of Mickle Fell, Director of the UK-US Special Relationship Unit at the Prosperity Institute. July 2025.

Seventy-nine years after Winston Churchill coined the phrase "the Special Relationship" to describe the alliance between the UK and the US, both powers still use the term. It encompasses historical ties, shared values and ethos, trust and friendship forged on the battlefield, and economic partnership. Even after the US War for Independence, the American Founding Fathers found it necessary to maintain peace and stability in their nascent country by keeping commerce and trade alive with Great Britain.

Two and a half centuries on, the British and the Americans still find this relationship mutually beneficial. The US is the largest foreign direct investor in the UK and the UK is the second largest in the US. Each country employs over one million people from the other, and there have been eight memoranda of understanding at the state level between the two nations regarding trade. The British were at the "front of the queue" in the second Trump Administration's 'Liberation Day' tariff policy, a fact which allowed for the creation the Economic Prosperity Deal (EPD) and secured the British a more favourable agreement than other countries.

However, it must be acknowledged that the EPD is not a "trade agreement" but an executive order adjusting tariffs which does not include all sectors of the economy. But it is a step in the right direction, and this paper explores the areas in which the UK and US can expand their trading relationship further and each find new economic opportunities through a comprehensive agreement.

For the Prosperity Institute's UK-US Special Relationship Unit, economist Catherine McBride OBE does an excellent and thorough deep-dive in outlining existing UK-US trade, the tariffs and non-tariff barriers that should be removed, and how the EPD will affect trade. She also points out opportunities the two countries can take advantage of, such as in securing supply chains, data and digital exchange, and redefining the rules of origin, as well as ways in which they can lead reform of the World Trade Organization (WTO).

If the UK and US wish to continue together as global leaders in the twenty-first century, it simply makes sense to cement their economic links in a diverse and extensive agreement which tears down obstacles to economic growth and expands the British and American economies.

Conversely, this paper also highlights a major threat to Anglo-American financial ties: the UK's 'Reset' with the European Union (EU). This development seeks to harmonise British sanitary and phytosanitary (SPS) measures with EU standards and to bring the UK into the EU's Emissions Trading Scheme (ETS). Both measures would alter current British standards and negatively impact UK trade with the US in food, agriculture, fuels, and industrial goods. It is therefore vital for the UK not to adopt the EU regulatory system. In so doing, it would leave behind the economic potential of a comprehensive deal with the largest economy in the world.

The UK has big decisions to make about the direction of its post-Brexit future, but without a doubt there is significant growth potential between the two leading defenders of the Free World. May the Special Relationship continue to seek out emerging trade opportunities and tap unrealised possibilities, securing the prosperity of these two great nations for years to come.

Glossary

AUSFTA: Australia-United States Free Trade Agreement

API: Active Pharmaceutical Ingredient

CBAM: Carbon Border Adjustment Mechanism

CPTPP: Comprehensive and Progressive Agreement for Trans-Pacific Partnership

CCL: Climate Change Levy

CMA: Competition and Markets Authority

DPF: Data Privacy Framework

DST: Digital Services Tax

EEC: European Economic Community

EPD: Economic Prosperity Deal

ETS: Emission Trading Scheme

EV: Electric Vehicle

ESG: Environmental, Social, and Governance

FDI: Foreign Direct Investment

FOB: Free On Board

FTA: Free Trade Agreement

GATT: General Agreement on Tariffs and Trade

GDPR: General Data Protection Regulation

HGP: Hormone Growth Promotants

HMF: Harbour Maintenance Fee

HS: Harmonised System

ICE: Internal Combustion Engine

IEEPA: International Emergency Economic Powers Act

ITC: International Trade Centre

IP: Intellectual Property

IPO: Initial Public Offering

LDC: Least Developed Countries

LNG: Liquid Natural Gas

LSE: London Stock Exchange

MFN: Most Favoured Nation

MPF: Merchandise Processing Fee

MRA: Mutual Recognition Agreement

MRL: Maximum Residue Level

NAIC: National Association of Insurance Commissioners

NYSE: New York Stock Exchange

ONS: Office for National Statistics

R&D: Research and Development

ROO: Rules of Origin

RVC: Regional Value Content

SEC: Securities and Exchange Commission

SME: Small and Medium-Sized Enterprise

SPS: Sanitary and Phytosanitary

TBT: Technical Barriers to Trade

TCA: Trade and Cooperation Agreement

TRQ: Tariff-Rate Quota

TTIP: Transatlantic Trade and Investment Partnership

UK MHRA: United Kingdom Medicines and Healthcare Products Regulatory Agency

US BEA: US Bureau of Economic Analysis

USDA: United States Department of Agriculture

US FDA: United States Food and Drug Administration

US FTC: United States Federal Trade Commission

USMCA: United States-Mexico-Canada Agreement

USTR: United States Trade Representative

VAT: Value Added Tax

VPAG: Voluntary Scheme for Branded Medicines Pricing, Access, and Growth

VPAS: Voluntary Scheme for Branded Medicines Pricing and Access

WTO: World Trade Organization

Executive Summary

Introduction

The United States and the United Kingdom are close allies and significant trading partners. However, the US has recently altered its trade policy and imposed additional tariffs on imported goods to safeguard its national security under the US International Emergency Economic Powers Act (IEEPA), applying tariffs to most imported goods with some exceptions, and under the Trade Expansion Act 1962, Section 232, on the non-US content of imported vehicles and on various imported aluminium and steel products.[1]

These tariffs have accelerated the need for a comprehensive UK-US trade agreement. This paper outlines the current state of UK-US trade and what a mutually beneficial future trade deal should be.

US Economic Prosperity Deal

The UK was the first country to agree a trade deal with the US during the second Trump Administration.

This was not a full free trade agreement (FTA), but an Economic Prosperity Deal (EPD), which removes the Section 232 tariffs on a quota of 100,000 UK cars, although the IEEPA tariffs of 7.5% and the 2.5% most favoured nations (MFN) tariffs would still apply. The EPD also agreed to remove the IEEPA and Section 232 tariffs on aircraft parts and engines. The Section 232 tariffs on other UK aluminium and steel exports will be removed if the UK meets the US's supply chain security requirements, including ownership of production facilities. If the UK does not meet these requirements, the Section 232 tariffs on steel and aluminium will increase to 50%.[2] However, if this requirement is met, the US will grant the UK an annual tariff-rate quota (TRQ) for steel and aluminium goods.

The UK-US EPD commits to negotiate significantly preferential treatment for pharmaceuticals and pharmaceutical ingredients, contingent on the outcome of the US Section 232 investigation and provided the UK complies with certain supply chain security standards and improves the environment for US pharmaceutical companies operating in the UK.

Under the terms of the UK-US EPD, the UK has agreed to open its market to US agricultural goods, including a reciprocal tariff-free quota for 13,000 tonnes of beef and 1.4 billion litres of ethanol. The UK will need to uphold its side of the EPD and grant this access if it wants to benefit from preferential treatment for UK cars, aircraft parts, and pharmaceuticals.

1 The expansion of Section 232 tariffs was announced by President Trump in February 2025, reinstating a 25% tariff on all steel imports and increasing tariffs on aluminium from 10% to 25%, along with derivative products of both metals. In June 2025, President Trump increased the Section 232 tariffs to 50%.

2 At the time of writing, tariff increases had yet to be confirmed and so this paper considers them only prospectively.

The UK's EU Reset, which proposes giving the EU *de facto* control over UK agricultural regulations and UK sanitary and phytosanitary (SPS) regulations, would negate the UK-US EPD. This would harm the UK's largest export industries and significantly reduce the UK's GDP if British companies relocate their production to the US to avoid tariffs.

Current trade

Goods

The US is the UK's largest trading partner, accounting for about 16% of UK goods exports in 2024. In that year, the US remained the UK's biggest source of total imports, providing 10% of imported goods and 20% of imported services.

The UK is the seventh largest market for US goods, purchasing around 4% of US exports. Canada is the largest market for US goods, buying 17% of US exports, followed by Mexico at 16% and China at 7%.

By product type, the UK's most valuable imports from the US include turbo jets, fuels (crude oil, refined oil, and liquid natural gas (LNG)), gold, aircraft, pharmaceuticals, medical and health products, precision instruments for medical, dental, and veterinary sciences, fuel woodchips, computers, cars, and telephones.

The UK depends on imported oil and LNG from the US for heating, electricity production, and as raw materials for its chemicals, plastics, and pharmaceutical sectors. The UK also imports alternative fuels from the US, such as wood pellets for biomass electricity generation and ethanol used in petrol.

Services

The US remains by far the UK's largest market for services exports, accounting for about 27% in 2024. In that year, the UK exported services valued at just under £137 billion to the US, according to the UK's ONS. Meanwhile, the US was the UK's largest supplier of service imports, with services exported to the UK worth $99.4 billion in 2024, according to the US Bureau of Economic Analysis.

The US remains the UK's largest service export market, purchasing 4.7 times more UK services than Germany, the second-largest market, in 2024. It is also the UK's main provider of imported services, supplying 2.6 times more than the next largest supplier.

There are many cultural and historical reasons for this extensive service trade: both countries use the English language, common law, and similar accounting rules; both countries' economies have highly developed financial, insurance, and investment markets; and both countries enjoy the same books, films, theatre, television, and streaming services.

Non-tariff barriers

To achieve a comprehensive trade agreement, the UK and the US need to **remove their most restrictive non-tariff barriers or allow a 10% tolerance on product standards**. They should adopt **mutual recognition of standards**, and most importantly, **prevent the EU from imposing its SPS, food, and agricultural regulations on the UK**. The US and UK will also need to review their numerous subsidies for their impact on trade. They must also address subsidies from third-country governments on imported parts, most notably EV batteries imported from China that have received government subsidies.

Potential areas for increased trade

It should be possible for the US and UK to negotiate a trade deal that immediately removes all tariffs and quotas on each other's goods, as well as regulatory barriers, and adopts mutual recognition of product standards.

The US and UK should also seize this opportunity to **revise the trade agreement's rules of origin** (ROO) to include the intellectual contributions of both countries in product development, design, and brand management. This will better reflect the true value of the US or UK's domestic input into the production of a good and expand the range of goods covered by trade agreement tariff reductions and trade barrier reductions.

Goods

Clothing, footwear, vehicles and light trucks, luxury goods, pharmaceuticals, plastics, chemicals, food, and agricultural products are the most obvious areas where the US and UK could boost trade if they eliminated their tariffs and quotas. Tariffs and quotas should be removed immediately.

Services

Expanding US and UK service trade will require mutual recognition of standards and authorities, or recognising the equivalence of regulatory outcomes. This was already the case in many financial services when the UK was a member of the EU, recognising the equivalence of US regulations and the authority and expertise of US regulators without either country having identical regulations.

The UK-US General Data Protection Regulation (GDPR) data bridge should be extended to cover financial services, banking, insurance, and telecommunications services, provided the US organisations are regulated by the Securities and Exchange Commission (SEC), the National Association of Insurance Commissioners (NAIC), or the Federal Reserve System.

The UK should remove its Digital Services Tax (DST) and limit the scope of its Online Safety Act. The amount raised by this tax is much less than predicted and a small fraction of the cost to the UK economy of a loss of trade with the US due to reciprocal tariffs.

Supply chain security

Both the US and the UK have become dependent on imported parts, semi-finished goods, essential components, and critical minerals from Asia, which has had similar effects on their supply chain security. Both nations faced shortages of essential components during the COVID-19 pandemic, reducing their manufacturing capacity. The US has addressed this issue with an extensive programme of onshoring critical industries. **Unlike the US, the UK currently lacks the resources, capital, and political will to onshore vital industries**; however, a comprehensive trade agreement with the US will enable it to access US supplies, thereby increasing the US customer base for onshored US production.

Recommendations of this report

- **Immediate tariff-free and quota-free market access**
  The UK and the US are developed market economies producing high-standard goods and services, with legally enforceable employment regulations. Both countries should immediately remove all tariffs and quotas on each other's products and remove their non-tariff barriers. The ideal trade agreement must consider the UK's possible future as a net goods and energy importer and a net services exporter. Service trade will require mutual recognition of standards, regulators, and legal systems, or the acknowledgement of the equivalence of regulatory outcomes.

- **Reassess the regional value calculations**
  A UK-US trade deal should reassess how we determine originating goods for (ROO) purposes. A UK-US trade agreement should include the value invested in research, development, design and brand creation as originating material when calculating a product's regional value content (RVC), just as US companies quantify and separate the brand and intellectual property value of their goods for tax purposes.

- **Ensure the security of supply chains**
  A comprehensive trade agreement with the US would allow the UK to diversify its supply chains to new US manufacturers and allow US manufacturers to benefit from a larger market for their goods. The US and UK are interconnected through multiple defence agreements, which should alleviate apprehension regarding supply constraints imposed by hostile governments.

- **Revive the purpose of international trade rules for developing nations**
  The current World Trade Organization (WTO) rules on self-designation of developing nation status must be reformed. They have allowed China, Mexico, India, Brazil, South Africa, and Argentina to continue to trade as developing nations despite their significant trade volumes and increasing trade surpluses. Developing nation status allows them to promote their exports and limit their imports, preventing genuinely developing nations from reaping the benefits of WTO rules designed to help them develop as China has done.

Introduction: Context of the UK-US EPD and the UK-EU Reset

Main points

- **UK-US EPD:** The June 2025 EPD removes US IEEPA and Section 232 tariffs on aircraft engines and parts, and UK tariffs on 1.4 billion litres of ethanol and reciprocal tariffs on 13,000 tonnes of beef. It also removes US tariffs on UK steel and aluminium if security requirements are met.

- **UK-EU Reset risk:** The UK-EU Reset could block US agricultural access, risk EPD benefits, and cause economic losses if UK industries relocate.

- **UK-US trade potential:** A trade agreement could cut tariffs and boost services and tech exports but requires UK deregulation to ensure mutual gains.

This section outlines in more detail the current context of UK-US trade in light of the UK-US EPD and the UK-EU Reset.

This is essential for developing a clear plan for a future trade deal. Previous papers on this subject have not scrutinised UK-US trade at a product level and, of course, predated the recent US tariffs and subsequent negotiations.[3]

US tariff increases

The Trump Administration is concerned that the US is losing its industrial capacity due to its reliance on imported materials and products. They believe this is a threat to US national security and that it has diminished innovation. To counteract this, on 11th February 2025, the Administration added 25% Section 232 tariffs on many products made with aluminium and steel, as well as on imported cars. The Section 232 tariff on steel and aluminium products was doubled to 50% on 4th June 2025 for most countries, but not for the UK. Section 232 tariffs are imposed for national security and are designed to protect industries that are vital to US defence from unfair trade practices that could drive them out of business.

President Trump also used the International Emergency Economic Powers Act (IEEPA) to impose tariffs on most other imported goods. The IEEPA tariffs were applied by country rather than by

3 This paper was published prior to any confirmation on whether the US will increase tariffs on UK steel and aluminium from 25% to 50%, dependent upon the UK meeting US security requirements.

product and ranged from a base level of 10% to 125% on Chinese imported goods.[4]

The only products exempted from Trump's IEEPA tariffs were pharmaceuticals, copper, lumber, some semiconductors, energy and energy products, minerals not available in the US, and some electronic devices. However, some of these products are under review by the US Department of Commerce for the possible imposition of Section 232 tariffs.

The UK-US Economic Prosperity Deal

The US-UK EPD agreed to remove or reduce US tariffs on a quota of 100,000 UK cars and their parts, all UK civil aircraft engines and parts and will provide a Tariff Rate Quota for UK steel and aluminium exports, provided the UK meets the US's supply chain security requirements.

This is a very desirable outcome for the UK, which exported cars worth just under $10 billion, aircraft engines worth $5 billion and aircraft parts worth $2.3 billion to the US in 2024.

The US has imposed 25% tariffs on the non-US content of imported vehicles and parts. This was an additional tariff added to the existing US MFN rates. Under the UK-US EPD, the US has reduced this rate to 7.5% plus the US MFN tariff of 2.5% for an annual quota of 100,000 vehicles, resulting in a total tariff of 10%, and US MFN tariff on vehicle parts made in the UK for use in vehicles produced in the UK. Exports exceeding this quota will be subject to a 27.5% tariff equal to the MFN plus the Section 232 tariff of 25%. In 2024, the UK exported 106,000 cars valued at $9.8 billion to the US8, along with truck parts and dumpsters worth $1 billion. The US tariff rate on trucks is now 50%: the US MFN tariff of 25%, plus the Section 232 tariff of 25%. While previously zero-rated, dumpsters and vehicle parts now face a 25% Section 232 tariff. These tariffs will significantly reduce UK truck and dumpster exports to the US. UK car exports to the US predominantly consist of high-value, prestigious brands, which will be less affected by the 10% tariff, though not entirely immune. The US is a very important market for UK car manufacturers: in 2024, the US accounted for 27.4% of UK car exports by value.

The US has also applied a 50% tariff on most iron and steel products, as well as many articles made with iron or steel; however, this is a much smaller export sector for the UK. In 2024, the UK exported about $1 billion of the 270 iron and steel products covered by the Section 232 tariff to the US.[5] However, for some of these products, the US is a very significant export market, buying up to 40% of UK exports. For example, *HS 94032080 Metal Furniture, excluding office, medical, surgical, dental, or veterinary furniture*, 37% of UK exports went to the US in 2024 and were worth $157 million.[6]

Under the terms of the UK-US EPD, US tariffs on UK steel and aluminium exports are still 25% but could increase to 50% if the UK does not fulfil the requirements of the EPD regarding security of

4 The US Court of International Trade ruled these IEEPA tariffs unlawful on 28th May 2025, but the US Court of Appeals for the Federal Circuit granted a stay, allowing them to remain in place. Oral arguments for the case are scheduled to begin on 31st July 2025.

5 Calculation based on the US Section 232 notices and the ITC UK export data to the US, by 8-digit tariff code, from the 5 chapters subject to the Section 232 tariffs.

6 International Trade Centre. (n.d.). Trade Map - Bilateral trade between United Kingdom and United States of America. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c94%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1 (Accessed 11 April 2025).

supply chains and the ownership of relevant production facilities.[7] However, if this requirement is met, then the US will grant the UK TRQs for its steel and aluminium goods..

All other UK exports to the US currently face 10% tariff rates, except for pharmaceuticals, certain semiconductors, various electronic devices, copper, lumber, energy and energy products, and other minerals that are not available in the US. Among these excluded products, pharmaceuticals represent a significant export for the UK. In 2024, 26.7% of UK medicinal and pharmaceutical product exports were sent to the US.[8] **However, the US has not ruled out imposing tariffs on pharmaceuticals, and the US Department of Commerce has initiated a Section 232 investigation into pharmaceutical imports, focusing on national security.**

Under the terms of the UK-US EPD, the UK has also agreed to open its market to "billions of dollars of increased market access for American exports, especially for beef, ethanol and certain other American agricultural exports." The UK has granted the US a tariff-free quota for 1.4 billion litres of ethanol, and the US and UK have granted each other a tariff-free quota for 13,000 tonnes of beef. The UK will need to uphold its side of the EPD and grant this access if it wants to benefit from preferential treatment for UK cars, aircraft parts, and pharmaceuticals.

The UK-EU Reset

Unfortunately, the UK also announced a 'Reset' with the EU, ten days after agreeing the EPD with the US. The EU Reset has not been formally adopted; however, if the EU's Statement on EU-UK Cooperation[9] does become UK law, then the EU would de facto set the UK's agricultural standards and therefore be able to prevent the UK from increasing market access to US agricultural products, even though this is a requirement of the UK-US EPD. The potential benefits to the UK of the UK-US EPD could be blocked by the EU, which has so far failed to reach an agreement with the US and is currently facing 50% IEEPA tariffs, as well as 50% Section 232 tariffs on its car, aluminium, and steel exports to the US.

The EU's Statement on EU-UK Cooperation proposes a common sanitary and phytosanitary (SPS) area covering the EU and the UK. This would require the UK to immediately implement the EU's SPS rules regarding plant and animal health, food safety, consumer protection related to agri-food products, the regulation of live animals and pesticides, as well as the rules for organic products and marketing standards.

Aligning with the EU's SPS regulations would be an expensive mistake and should be avoided at all costs. The USTR's (United States Trade Representative) Report on Foreign Trade Barriers[10] devotes 32 pages to EU trade barriers, approximately half of which pertain to agricultural products. The USTR is concerned by the EU's overly cautious approach to new technologies, its

7 The White House. (2025). Proclamations, Adjusting Imports of Aluminum and Steel into the United States. Available at: https://www.whitehouse.gov/presidential-actions/2025/06/adjusting-imports-of-aluminum-and-steel-into-the-united-states/ (Accessed 9 July 2025).

8 Office for National Statistics. (2025). *UK trade with the United States:2024*, 25 April. Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/uktradewiththeunitedstates/2024#:~:text=Medicinal%20and%0Apharmaceutical,26.7 (Accessed 9 July 2025).

9 European Commission (2025). *A renewed agenda for European Union – United Kingdom cooperation Common Understanding*. Available at: https://ec.europa.eu/commission/presscorner/detail/en/statement_25_1267

10 United States Trade Representative. (2025). *2025 National Trade Estimate Report on Foreign Trade Barriers*. Available at: https://ustr.gov/sites/default/files/files/Press/Reports/2025NTE.pdf

lengthy approval processes, and the fact that it can take years for the European Commission to approve the use of substances that have been evaluated as safe by the European Food Safety Authority. The EU frequently updates its certification requirements, making it challenging to export goods with the correct certificate. The EU disregards Codex Alimentarius guidance and does not recognise recommendations from the World Organisation for Animal Health.[11] It has failed to provide scientific evidence to justify its own standards.

Dynamic alignment with EU SPS regulations would not only prevent the UK from enhancing agricultural market access for US goods, without control of its own SPS regime, animal welfare rules, and pesticide standards; it would also make it effectively impossible for the UK to negotiate trade agreements with other countries.

The cost to the UK economy of full US Section 232 tariffs

Giving the EU control over UK agricultural regulations and UK sanitary and phytosanitary regulations would negate the EPD, potentially harming the UK's export industries and greatly reducing the UK's GDP if British companies relocate their production to the US to avoid the tariffs, reducing UK employment and the associated corporate and employment tax revenues.

UK petrochemical and plastics companies are expected to relocate their production to the US to avoid the 10% IEEPA tariffs. These industries are already struggling with the UK's high industrial energy costs and the closure of UK oil refineries that supplied them with raw materials. The US is a large market for these products, and the tariff increase will make these relatively homogenous products uncompetitive in the US market.

Relocating manufacturing to the US will benefit the UK companies involved but harm the UK's trade balance, and its GDP through the loss of jobs and associated tax revenues. A UK-US trade agreement would help to avoid this detrimental outcome.

Positive outcomes from the EPD and a comprehensive trade agreement

However, the UK should not be negotiating a trade deal with the US solely to avoid punitive measures. There would be numerous positive outcomes if such an agreement could be reached. Both countries are in a similar cycle for many manufactured goods, yet they still impose tariffs on each other's products and maintain other barriers to trade, reminiscent of a time when they were rival manufacturing powers. **A trade deal between the two nations would be a natural partnership.**

There are various product sectors where both the US and the UK could eliminate trade barriers and enhance their exports without undermining either country's production. Wages and employment benefits in the US and the UK are comparable, and neither country produces goods that compete internationally solely based on price; instead, they compete on expertise, innovation, quality, style, and desirability.

11 The Codex Alimentarius (Latin for 'Food Code') is a collection of internationally recognised standards, codes of practice, guidelines, and other recommendations published by the UN's Food and Agriculture Organization (FAO) and World Health Organization (WHO) relating to food, food production, food labelling, and food safety.

Furthermore, a UK-US trade agreement should encompass much more than merely removing tariffs on goods. **Both countries are substantial consumers of each other's services, and this trade is growing rapidly, with potential for further expansion**. A new trade agreement should encompass electronic services, technology, intellectual property, telecommunications, film and television, screening services, artificial intelligence, and social media.

A potential downside to a UK-US trade agreement for the UK is that the UK has retained the European Union's (EU) attitude to regulation, consumption taxes, environmental laws and, in some cases, retained the EU's actual laws. This could make a UK-US trade agreement very lopsided if the UK fails to embrace its post-Brexit freedoms to deregulate and innovate. The Trump Administration is reducing or removing environmental mandates and regulations that have reduced manufacturing and infrastructure construction; encouraging oil and gas drilling; and proposing tax reforms to enable corporate investment in new plant and equipment.[12] The UK should chart a similar course if it wishes to trade advantageously with the US.

12 United States Environmental Protection Agency. (2025). *EPA Launches Biggest Deregulatory Action in U.S. History*. Available at: https://www.epa.gov/newsreleases/epa-launches-biggest-deregulatory-action-us-history

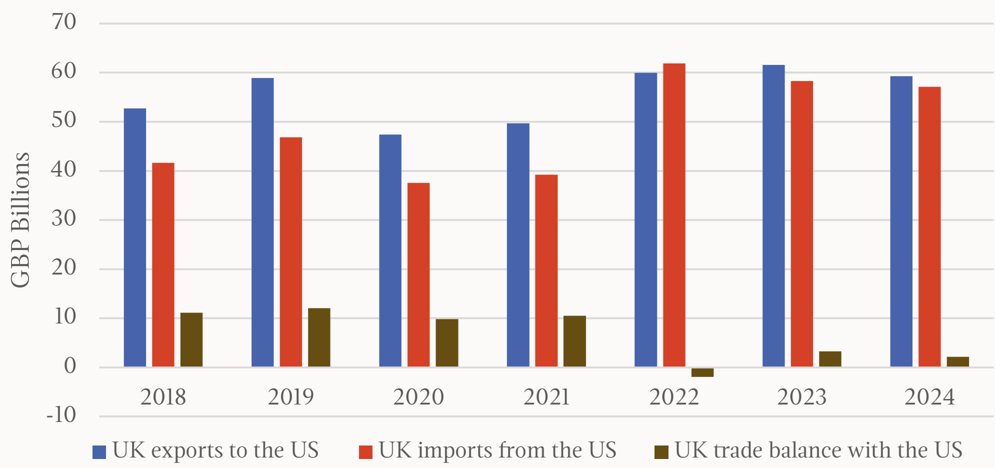
1. The current state of UK-US trade

Main points

- *The US is the UK's largest trading partner, accounting for 16% of UK goods exports and 27% of service exports in 2024, with balanced goods trade but increasing UK reliance on US fuel imports like oil, LNG, wood pellets, and ethanol due to net-zero policies.*
- *Recent US tariffs, including a 10% IEEPA tariff on most UK goods, threaten UK exports, particularly in chemicals and plastics, potentially forcing UK firms to relocate production to the US.*
- *UK exports to the US consist mostly of cars, aircraft engines and parts, pharmaceuticals, chemicals, and medical equipment. UK imports from the US are centred on fuels, aircraft, pharmaceuticals, and medical equipment, as well as agricultural products such as corn, soybeans, and nuts.*

In general, the UK and US goods trade is balanced. The UK's imports from the US are increasing in line with the UK's growing demand for fuels, including oil and gas, wood chips for biomass electricity, and ethanol used in petrol. (*See Figure 1*).

Figure 1: *UK Goods trade and trade balance with the US*



Sourece: ONS, Trade in goods: country by commodity. Prices as of March 2025

The US and UK currently trade under World Trade Organisation (WTO) rules, and they are—and have always been—substantial trading partners in goods and services, sometimes acrimoniously and generally with tariff restrictions. The US established the General Agreement on Tariffs and Trade (GATT) in 1947, which was replaced by the WTO in 1995. The UK was a reluctant initial signatory to GATT,[13] and it did not fully utilise it until it became part of the European Economic Community (EEC) in 1973. Prior to that, the UK operated its own system of tariffs and trade barriers, known as Imperial Preference, which was designed to protect its industries and trade with Commonwealth countries through preferential tariff rates.

The US is the UK's largest trading partner, accounting for approximately 16% of UK goods exports[14] and 27% of UK service exports in 2024.[15] In 2024, the US was also the UK's largest supplier of total imports[16], providing 10% of imported goods and 20% of imported services[17].

The US is by far the UK's largest service export market and purchased 4.7 times more UK service exports than the UK's second-largest service market, Germany, in 2024.[18] The US is also the UK's largest provider of imported services, providing 2.6 times more than the next largest supplier. Services are traded tariff-free, although importers of services pay a reverse charge[19] unless the service is exempt (e.g. electronically supplied services such as website hosting). The UK also charges a 2% Digital Services Tax (DST) on the revenues of search engines, social media services, and online marketplaces that derive value from UK users, provided the group's worldwide revenues exceed £500 million and more than £25 million of these revenues are derived from UK users.

UK dependence on US imports

The UK ranks as the seventh largest goods export market for the US, buying around 4% of US goods exports. Canada is the largest market for US goods, buying 17% of US exports, followed by Mexico at 16% and China at 7%.

While the threat of tariffs has obviously focused the attention on UK exports, **the UK benefits enormously from imported goods from the US,** and UK imports from the US will continue to increase in the future with or without a trade deal as the EU is unable to supply the UK with the fuel and key components it needs.

13 Toye, R. (2003). 'The Attlee Government, the Imperial Preference system, and the creation of the GATT', *The English Historical Review*, 118(478), p.919-939. Available at: https://core.ac.uk/download/pdf/12825437.pdf?form=MG0AV3

14 Office for National Statistics (n.d.), *Trade in Goods: country-by-commodity exports*. February 2025 current prices. Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityexports (Accessed 11 April 2025).

15 Office for National Statistics. (n.d.). *UK trade in services: service type by partner country, non-seasonally adjusted*. Available at: https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted (Accessed 24 January 2025). (2023 is the most recent available service trade by country and type of service. Goods were updated for 2024 while this paper was being written; however, many other countries have not released their 2024 trade figures as yet, so in this paper, the figures will vary between the two dates.)

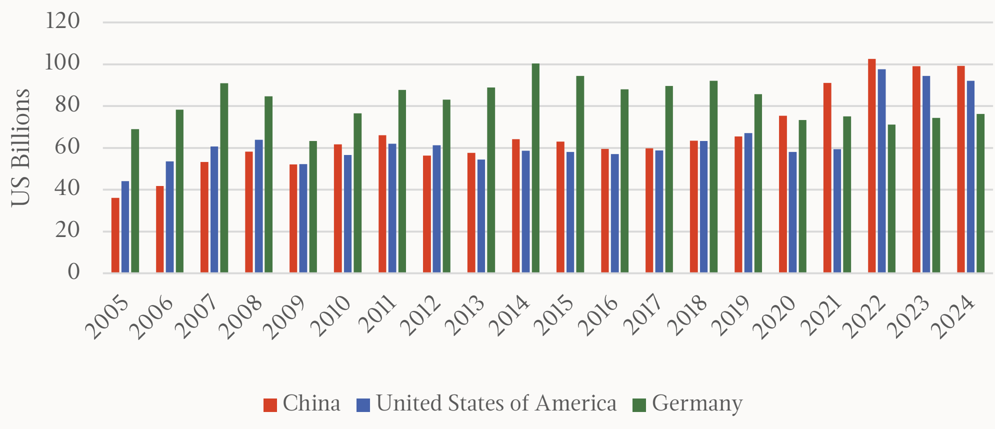
16 Office for National Statistics (n.d.), *Trade in Goods: country-by-commodity imports*. February 2025 current prices. Available at: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityimports/current (Accessed 11 April 2025).

17 The UK ONS has not yet released the figures for UK service trade in 2024 by country.

18 ONS, *UK trade in services: service type by partner country, non-seasonally adjusted*.

19 UK Government. (n.d.) *VAT on services from abroad*. Available at: https://www.gov.uk/vat-on-services-from-abroad?form=MG0AV3 (Accessed 9 July 2025).

Figure 2: *UK imports over 20 years showing the change in the largest suppliers, in US$*

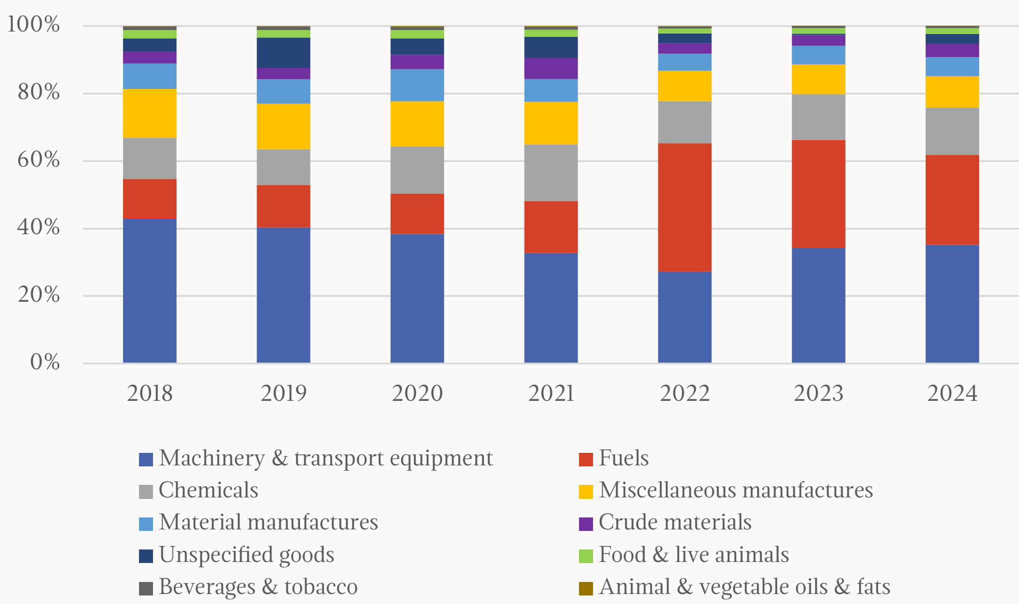


Source: ITC, Trade Map

Examining the balance of trade over the past 20 years, the UK's imports from China have increased by 229%, imports from the US by 108%, and imports from Germany by only 9% (measured in current US dollars). *(See Figure 2, above)*

The UK's dependence on imported fuels from the US, (*see Figure 3 below*), is likely to grow under the current government's policies to achieve net zero carbon dioxide emissions, despite the economy's ongoing reliance on fossil fuels for heating, electricity generation, and as an input for its chemicals, plastics, and pharmaceutical industries. The UK also imports alternative fuels from the US, such as wood pellets for biomass electricity generation and ethanol used in petrol. Fuels, which are primarily imported by the UK tariff-free but are subject to the UK's Import Value Added Tax (VAT), Climate Change Levy (CCL), and/or excise duties.

Figure 3: *UK imports from the US by product sector*

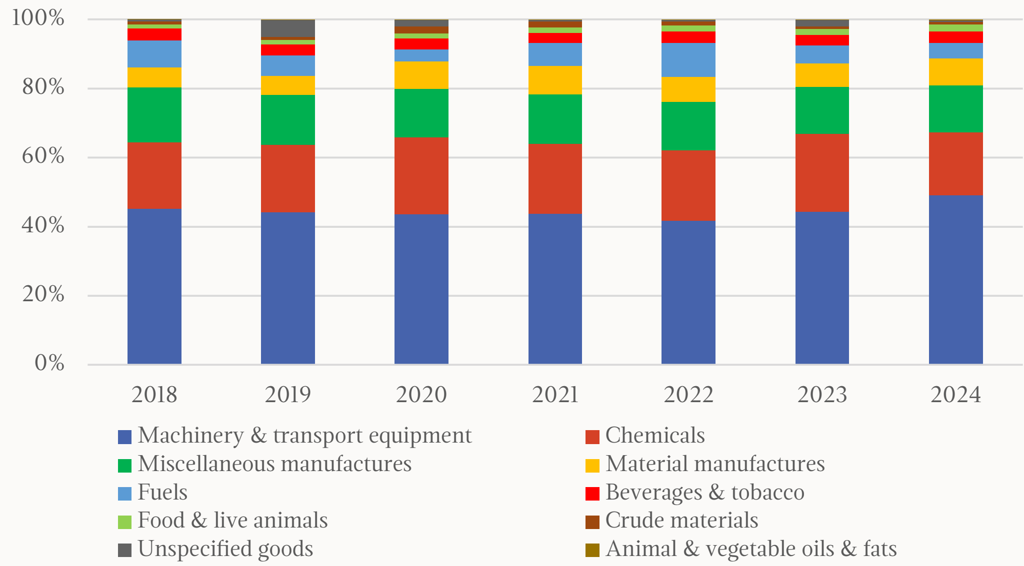


Source: ONS, Trade in goods: country by commodity. Prices as of March 2025

UK exports to the US by product sector

UK exports to the US are more concentrated. 80% of UK goods exports to the US fall into three sectors: *Machinery and transport equipment*, *Chemicals*, and *Miscellaneous manufactures*. (*See Figure 4*.)

Figure 4: *UK goods exports to the US by product sector*



Source: ONS, Trade in goods: country by commodity. Prices as of March 2025

Costs and benefits of a UK-US trade agreement

Trade is a transaction between businesses and consumers, not between governments. Governments can facilitate trade through trade agreements or hinder it with trade barriers. Tariffs are, in essence, consumption taxes imposed on imported goods.

There are many benefits of the US and UK agreeing a trade deal, but there is now an obvious cost for the UK of *not* negotiating one: the Trump Administration's additional IEEPA tariffs are applied to all imported goods except pharmaceuticals, energy, copper, lumber, some semiconductors and electrical equipment[20], minerals unavailable in the US, and the goods covered by the Section 232 tariffs of 25% or 50%. The IEEPA tariffs are in addition to the US's Most Favoured Nation (MFN) tariffs and vary by country. UK goods have the IEEPA base level of 10% applied to them.

Under the UK-US EPD, US Section 232 IEEPA tariffs will be disapplied on a quota of 100,000 vehicles, all aircraft parts, 13,000 tonnes of beef, pharmaceutical products, and for a quota of various products made with steel, iron, or aluminium, provided UK exports meet US supply chain

20 The White House (2025). *Clarification of Exceptions Under Executive Order 14257 of April 2, 2025, as Amended.* 11 April. Available at: https://www.whitehouse.gov/presidential-actions/2025/04/clarification-of-exceptions-under-executive-order-14257-of-april-2-2025-as-amended/

security requirements.

In general, governments do not directly benefit financially from exports. However, tariffs on imports are paid by businesses importing the goods and contribute to the importing country's tax revenues. Tariffs can be partially absorbed by the exporter if the importer demands a discount to offset the cost of the tariffs. Tariffs can be reduced if the exporting country's currency devalues relative to the importing country's currency. The UK is not able to intentionally devalue its currency; in fact, the pound has appreciated against the dollar since the tariffs were announced. However, the US is a large enough customer for many UK exporters that US importers could demand discounts from UK exporters to compensate for the tariffs. This will impact the profit margins of UK exporters and reduce their tax payments.

UK tariffs were generally higher than US tariffs before the recent increases; in some cases, such as for agricultural goods, UK tariffs are still higher than US tariffs, including the IEEPA tariffs. However, the US had and still has higher tariffs than the UK on trucks, dumpsters, and some types of clothing and footwear. Many of the two countries' most traded goods had zero tariffs. The UK also applies VAT to imported goods, whereas the US does not impose a federal consumption tax on imports. Some US states apply sales taxes to retail sales, but the highest rate is only 7.5%, and several states have no sales tax at all.[21] The absence of consumption taxes or VAT in the US means that many UK products can be cheaper in the US than in the UK. This is especially true for cars with a 20% VAT rate.

When an exported good's price is lower in the export market than in the exporter's domestic market it is technically 'dumping', even though the differential is due to the UK's high consumption taxes on all manufactured goods rather than an attempt to gain market share in the US. However, the addition of VAT does make imported US cars uncompetitive in the UK market. The UK applies a tariff of 10% on US cars and then adds 20% VAT to the value of the car, including the tariff. The recent 25% tariff imposed by the US on imported cars attempts to equalise these charges.

There is a full discussion of the effect of increased US tariffs on UK exports in Appendix 1 at the end of this paper; however, in brief, the UK's three main export sectors would be affected in different ways: UK *Chemicals* and *Plastics* producers may have little choice but to move their production to the US or lose their US market share completely; UK *Machinery and transport equipment* producers that dominate their markets may retain their US market share, initially hurting US importers until US domestically produced substitutes are found, while perversely UK luxury car exports may benefit from the tariffs as the increase in their price could make them more prestigious and increase their sales. The increased US tariffs would mainly hurt smaller UK exporters that cannot get around the tariffs by relocating any production to the US.

The US has also imposed Section 232 tariffs on certain goods made with steel[22] and aluminium.[23] Although most of the UK's exports of *Iron and Steel (HS 72) and Aluminium (HS 76)* are scrap metal for recycling, this US tariff list also includes aircraft parts (*HS 88073000*). UK aircraft part exports to the US were worth $2.3 billion in 2024. The Section 232 tariffs do not apply to aircraft engines,

21 Tax-Rates.org. (2025). *Sales Tax Rate By State*. Available at: https://www.tax-rates.org/taxtables/sales-tax-by-state

22 Federal Register. (2025). *Adjusting Imports of Steel into the United States*, 18 February. Available at: https://www.federalregister.gov/documents/2025/02/18/2025-02833/adjusting-imports-of-steel-into-the-united-states

23 Ibid.

which are one of the UK's most valuable goods exports to the US. Under the terms of the UK-US EPD, all UK civil aircraft exports will be exempt from the Section 232 tariffs.

The UK's relatively small non-scrap aluminium and steel exports are diminishing due to the UK's expensive industrial electricity. The UK's largest aluminium smelter closed in 2012; the UK has only one remaining smelter, which uses hydroelectric power. Based in the Scottish Highlands, the smelter produces only 48,000 tonnes of aluminium per year.[24] Similarly, the UK's largest steel blast furnace, at Port Talbot, closed last year, and the UK's remaining blast furnaces at Scunthorpe were due to be replaced by electric arc furnaces. The British Government has taken control of the steelworks to prevent its closure and is currently looking for a private buyer; otherwise, it will be nationalised.[25]

However, even the additional 10% tariffs will cause a significant reduction in UK exports to the US, especially in relatively homogenous chemicals and plastics. According to the European Chemical Industry Council (CEFIC), the UK's chemical and pharmaceutical industry contributes over £30 billion to the UK economy, generates exports worth around £60 billion, and employs 137,000 people.[26]

The US is a significant market for the UK's most valuable exports and lost exports to the US will not be replaced by increased exports to other countries. If companies relocate some or all of their production to the US, it will result in job losses and reduced tax revenues from corporations and their former employees. However, if manufacturers remain in the UK, they will also see their profits reduced as their exports become less competitive in the US market.

Losing industries to the US would be a devastating blow to the UK's GDP and balance of payments. The subsequent increase in the UK's trade deficit would lead to a shortage of foreign currency needed to pay for imports, which would lower the pound's value against the dollar, making UK imports of commodities priced in dollars, such as oil and gas, more expensive.

Current UK-US goods trade by industry

The UK's most valuable goods exports to the US are cars, aircraft engines and parts, pharmaceuticals and healthcare products, gold and other precious metals, chemicals, refined oil, whisky, precision medical and veterinary equipment, and artwork.

The UK's most valuable imports from the US are turbojets, hydrocarbon-based fuels (crude oil, refined oil, and LNG), gold, aircraft, pharmaceuticals, medical and health products, precision instruments for medical, dental, and veterinary sciences, fuel woodchips, computers, cars, and telephones.

Of the 1,200 four-digit Harmonised System (HS) tariff codes, most UK and US trade is concentrated in fewer than fifteen product types measured by those codes. Most of the goods traded between

24 Alvance. (n.d.). *About us*. Available at: https://alvancebritishaluminium.com/about-us/#:~:text=Lochaber%20smelter%20has%20a%20production%20capacity%20of%2048%2C000%20tonnes%20per%20annum (Accessed 9 July 2025).

25 House of Commons Library (2025). *British Steel and government special measures*. 23 June. Available at: https://researchbriefings.files.parliament.uk/documents/CBP-10278/CBP-10278.pdf

26 Elliot, S. (2024). *Chemical Industry Snapshot, United Kingdom*. The European Chemical Industry Council. Available at: https://cefic.org/landscape-of-the-industry/united-kingdom/?form=MG0AV3&form=MG0AV3

the two nations are commercial items, such as precision instruments and appliances, which serve as inputs in manufacturing and services and generally face low or no tariffs by either country. The UK's largest imports from the US are various types of fuels which are mostly imported tariff-free, with the exception of ethanol.

US and UK trade under 2023 and 2024 tariffs

Table 1 (see Appendices) lists the UK's 25 most valuable imports from the US, the UK's tariff range, and the average applied tariff. Most of these imports have either zero or very low tariffs, with the exception of cars, ethyl alcohol used for industrial purposes and as a compulsory addition to petrol, titanium products, and nitrogen heterocycles used in pharmaceuticals. These 25 imported products account for 70% of all UK imports from the US, with over a quarter of this amount being oil and gas imports.

Table 2 (see Appendices) lists the 25 most valuable UK exports to the US, along with the average applied tariff and the applicable tariff range for 2023. We can see from Table 2 that even when the US tariff range is, for example, between 0% and 2.5%, the UK mainly exported goods with 0% tariffs as the average applied tariff (*ad valorem*) is zero. The highest US tariff was on UK exports of dumpsters (similar to a skip in the UK). Everything else had an average applied tariff of less than 5%, and many items are imported tariff-free. These 25 export products account for 62% of the UK's total exports to the US, with the top 5 products—cars, aircraft engines and parts, and pharmaceuticals—making up over half of that amount. The new tariff range adds 10% to the 2023 MFN range and 25% to steel and aluminium good tariffs.

Although Tables 1 and 2 may suggest that the US and UK are trading the same consumer goods back and forth, that is not the case. For example, both countries export cars to the other, but while British consumers might want to purchase a US-made Tesla, American consumers may prefer a UK-made Range Rover. There are also differences in the grades of exported commodities, such as oil.

Vehicle exports

The UK exports approximately 80% of the cars it produces. Measured by units, around 60% are sold to the EU. But measured by value, two-thirds are sold to non-EU countries, particularly the US. That is, **the US buys the UK's high-value cars, while the EU buys cheaper UK models**. UK car exports to the US were worth £9 billion in 2024, accounting for 27% of total UK car exports.[27] The US imported more than twice the value of cars from the UK than from the UK's second largest car market, China.

In 2024, the US applied a 2.5% tariff on cars while the UK imposes a 10% tariff on all imported US cars; consequently, only 2% of the UK's £38 billion car imports came from the US in 2024.[28]

Using data by 6-digit HS codes for 2020 to 2024[29], a third of the UK's exports of internal combustion engine (ICE) cars with over 3-litre capacity engines went to the US, and an additional 26% of

27 ONS. *Trade in Goods: country-by-commodity exports*. February 2025, current prices (Accessed 11 April 2025).

28 ONS. *Trade in Goods: country-by-commodity imports*. February 2025, current prices (Accessed 11 April 2025).

29 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c8703%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1 (Accessed 11 April 2025).

the UK's exports of smaller engine ICE (internal combustion engine) cars also went to the US. Additionally, 37% of the UK's hybrid ICE vehicle exports and 21% of the UK's plug-in/ICE vehicles went to the US. Over the five-year period, the US imported between 31% and 37% of the UK's total exports of large-engine ICE cars.

Table 3: *UK car exports to the US by type*

HS Product code	Motor cars and vehicles principally designed for the transport of <10 persons, including station wagons and racing cars	Proportion of the UK's exports going to the US					Proportion of the US's imports coming from the UK				
		2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
'870340	Hybrid ICE and electric motor	29%	24%	26%	22%	37%	16%	17%	20%	13%	18%
'870324	ICE engine with cylinder capacity > 3.000 cm³	37%	34%	35%	31%	33%	8%	9%	11%	9%	7%
'870323	ICE engine with cylinder capacity of 1.500 to 3.000 cm³	27%	27%	23%	19%	26%	2%	2%	1%	1%	1%
'870360	ICE engine and plug-in electric motor	11%	2%	5%	6%	21%	3%	1%	2%	3%	10%
'870380	EV	2%	4%	6%	5%	13%	1%	1%	1%	1%	1%
'870332	Diesel engine with cylinder capacity of 1.500 to 2.500 cm³	0%	1%	2%	2%	8%	4%	14%	9%	9%	7%
'870322	ICE engine with cylinder capacity of 1.000 to 1.500 cm³	25%	26%	4%	3%	1%	5%	6%	0%	0%	0%
'870390	With engine other than ICE or Electric motor	7%	9%	9%	12%	13%	5%	2%	6%	4%	19%
'870321	ICE engine with cylinder capacity of less than 1.000 cm³	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%
'870333	Diesel engine with cylinder capacity of > 2.500 cm³	3%	2%	3%	3%	3%	10%	6%	1%	1%	1%
'870331	Diesel engine with cylinder capacity of < 1.500 cm³	0%	0%	1%	0%	1%	1%	72%	4%	7%	28%
'870310	Vehicles for snow, golf carts and similar vehicles	1%	2%	2%	3%	1%	0%	0%	0%	0%	0%
'870350	Hybrid diesel engine and electric motor	0%	0%	0%	0%	0%	0%	32%	1%	69%	0%
'870370	Diesel engine and plug-in electric motor	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

ITC. Trade Map. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c8703%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1.

The UK also levies a 14% tariff on imported US trucks. The US is one of the world's major truck exporters, exporting trucks worth $22 billion in 2023, approximately 12% of global truck exports, but very few were imported by the UK,[30] even though the UK imported trucks worth over $11 billion in 2023. Meanwhile, 20% of the UK's $3.5 billion truck exports, worth $700 million, went to the US, where they faced average applied tariffs of 22%.

High tariffs on trucks imposed by the US and the UK have not always achieved the desired effect of protecting domestic companies. Instead, they have encouraged foreign manufacturers to move their factories to the US or the UK to avoid the tariffs. For example, the US truck company PACCAR owns both Leyland Trucks and DAF Trucks in the UK, which together have a significant

30 ITC. *Trade Map.* Available at: https://www.trademap.org/Bilateral.aspx?nvpm=1%7c826%7c%7c842%7c%7c8704%7c%7c%7c4%7c1%7c1%7c1%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 11 April 2025)

share of the UK light, medium, and heavy-duty truck market. US car manufacturer Ford likewise produces diesel, electric, and hybrid transit vans in the UK that benefit from UK tariff protection. UK tariffs simply protect those US manufacturers who can afford to move part of their production facilities to the UK but ultimately diminish competition and consumer choice by pricing out other producers who cannot afford to relocate.

Aircraft engines, aircraft parts, and precision machinery

The UK is the world's largest exporter of aircraft parts. UK exports of jet engines and aircraft parts to the US were tariff-free until the recent US Section 232 and IEEPA tariff increases. The most valuable exports to the US in this group are *Turbojet and gas turbines (HS8411)*, which were worth $4.9 billion in 2024.[31] The US is an important customer for UK turbojets, importing 14% of the UK's total turbojet exports.

This is also true of other precision machinery: the US imported 17% of UK exports of *Aircraft and other aircraft parts*[32] *(HS88)* in 2024, 15% of UK exports of *Electrical machinery*[33] *(HS85)*, and 22% of UK exports of *Precision apparatus and instruments*[34] *(HS90)*.

Fuels and their derivative products

Hydrocarbon-based fuels and their derivative products, such as organic chemicals and plastics, form a large part of US and UK trade. In 2024, 35% of the UK's organic chemical exports went to the US, 15% of its inorganic chemical exports, and 9% of its plastics exports. At the same time, the UK imported 23% of its total fuel imports from the US, 12% of its organic chemical imports, 11% of its inorganic chemicals imports and 9% of its plastic imports.

The UK's North Sea Brent Crude is a light, sweet oil ideal for producing diesel, which is now, and will continue to be, an important fuel for industry, mining, and farming, as well as for road and sea transport. However, the UK has limited its production of crude oil with exceptionally high tax rates on oil and gas companies. The effective tax rate on UK oil and gas companies is 78% as of April 2025. The current British Government has pledged to refrain from issuing any new oil and gas licences but has also pledged not to revoke any existing licences. However, several North Sea oil and gas licences that previous governments have approved are not in operation because of legal challenges by environmental groups, including Equinor's Rosebank oil field, which is the largest undeveloped oilfield in UK waters.[35] Consequently, the UK now imports considerably more crude and refined oil than it exports. *(See Figure 5)*

31 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c8411%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 11 April 2025)

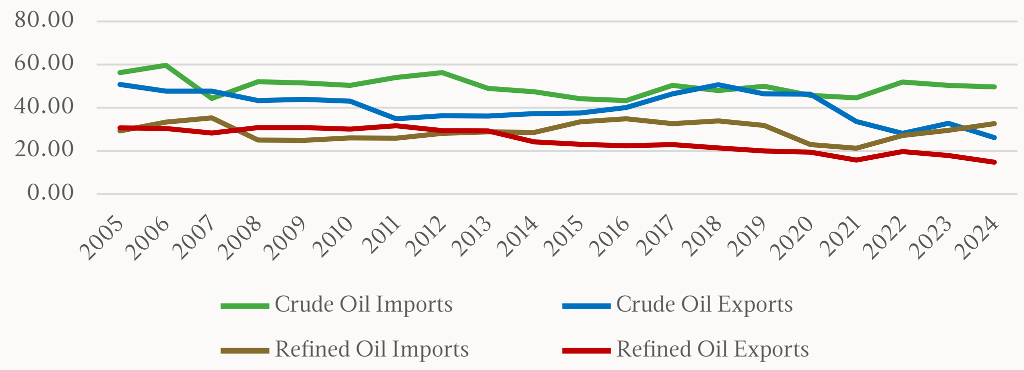
32 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c88%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 11 April 2025)

33 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c85%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 11 April 2025).

34 ITC, *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c90%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 11 April 2025)

35 Gozlukaya, I. (2025) 'Government left in limbo as court blocks North Sea oil projects', *Palatinate*, 13 February. Available at: https://www.palatinate.org.uk/government-left-in-limbo-as-court-blocks-north-sea-oil-projects/?form=MG0AV3 (Accessed: 8 July 2025)

Figure 5: *UK exports and imports of crude and refined oil*



Source: ITC, Trade Map

The UK's present environmental regulations and its prohibition on fracking and developing new oil and gas fields will increase the UK's reliance on imports of fuels and products made with hydrocarbons that were once large UK exports. The UK's largest petrochemical and plastics company, INEOS, was already in the process of moving its production to the US before the new US tariffs were announced.

The UK will also need to import more gas, including US LNG, for electricity production if the Government achieves its goal of converting all domestic heating from gas to electricity and all ICE cars to electric vehicles (EVs). Presently, the UK sources most of its natural gas from Norway; however, the Norwegians are increasingly discontent about supplying fuel and energy to Europe due to the increasing costs of their once cheap and abundant domestic energy.[36]

Critically, the UK will continue to need hydrocarbon-based fuels, including oil and gas, biomass wood pellets, and ethanol used as a compulsory additive to petrol. While the US already supplies the UK with these products, the UK still applies high tariffs on ethanol imported from the US. The UK-US EPD includes a tariff-free quota for 1.4 billion litres of ethanol, which is approximately the amount the UK imported in 2024. A UK-US comprehensive trade agreement should remove this quota and make all US ethanol tariff-free in the UK and allow trade to grow. The UK has a limited amount of arable land and does not have a climate suitable for growing corn or sugar cane: crops that produce higher volumes of ethanol per acre than the wheat predominantly used in the UK to produce ethanol.

A comprehensive trade agreement with the US would not only help ensure the UK has a continued supply of fuels, industrial chemicals, plastics, fertiliser, pharmaceuticals, soaps and detergents, but importing more ethanol from the US will free up British farmland to produce food crops.

The UK also adds other duties on imported energy, such as the climate change levy (CCL), a UK tax on non-domestic energy users. For imported oil classified under *HS code 2710 1911*, the CCL rate is £0.04449 per kg as of April 2024, equivalent to £0.5295 per litre. Moreover, the UK's proposed CBAM is expected to be applied to imported fertilisers and hydrogen, both of which

36 Tsvetana, T. (2022). 'Norway Considers Energy Export Curbs, Sending Shockwaves Through Europe', *OilPrice.com*, 5 February. Available at: https://oilprice.com/Energy/Energy-General/Norway-Considers-Energy-Export-Curbs-Sending-Shockwaves-Through-Europe.html (Accessed: 1 July 2025).

are made from natural gas.

The CBAM cost will be based on the carbon dioxide emitted during the production of the commodity, as well as the emissions from the production of any precursor materials and from the transportation of the finished good to the UK.[37] The UK-EU Reset requires the UK to join the EU's CBAM and Emission Trading Scheme (ETS). Both are more expensive than the current UK schemes and would increase costs for UK-manufactured goods and goods imported from non-EU countries such as the US.

Similarly, while the UK has not followed the EU Regulation on Deforestation-free Products, it may be compelled to do so if the EU Reset is adopted into UK law. This could impact UK imports of biomass wood pellets used for electricity generation. The EU's Renewable Energy Directive (RED) requires wood pellets to come from sustainably managed forests. **The UK's possible alignment with the EU's environmental trade barriers would need to be addressed in any UK-US trade negotiation.**

Agriculture

Agricultural trade between the UK and the US should be straightforward: the UK is a significant net food importer, while the US is a substantial net food exporter. However, this is complicated by powerful agricultural lobby groups in each country, with the UK having the added complication of powerful EU agricultural lobbyists that do not want US competitors in the UK market. Historically, attempts to secure a trade agreement between the US and UK have shown that agriculture has the potential to derail the entire arrangement, despite constituting a small proportion of UK exports and a significant proportion of UK imports.

Despite the UK's high agricultural tariffs, the UK has relatively balanced trade with the US in *Food and live Animals,* according to the ONS.[38] The UK's most valuable agricultural imports from the US are *animal feed*, *fruit and vegetables*, and *miscellaneous foods*. Much of the imported US animal feed comprises soy and corn, which are used to feed intensively farmed chickens and pigs in the UK. The UK imports almost no *meat and meat products*, *dairy products*, or *sugar* from the US, despite being a significant importer of all three from EU countries such as Ireland and France. The UK's largest food export to the US is *fish and shellfish*, and *miscellaneous foods*. Although the UK's exports of meat and dairy products to the US are not substantial, they are respectively ten times and five times the value of the UK's meat and dairy imports from the US.

The potential for the US and UK to agree a comprehensive trade deal that includes agri-food has been made more difficult by the UK's EU Reset, which would require the UK to follow the EU's SPS rules, its pesticide regulations, food safety rules, consumer protection rules for the production, distribution and consumption of agricultural products, live animal regulations, organic product rules, and its food and agricultural marketing standards. It is difficult to understand why the UK would relinquish its authority to set its own regulations on food and agricultural standards. But if it does this, it would make importing US food much more difficult.

37 UK Department for Energy Security & Net Zero. (2023). *Factsheet: UK Carbon Border Adjustment Mechanism*, 18 December. Available at: https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation/outcome/factsheet-uk-carbon-border-adjustment-mechanism (Accessed 8 Jul. 2025).

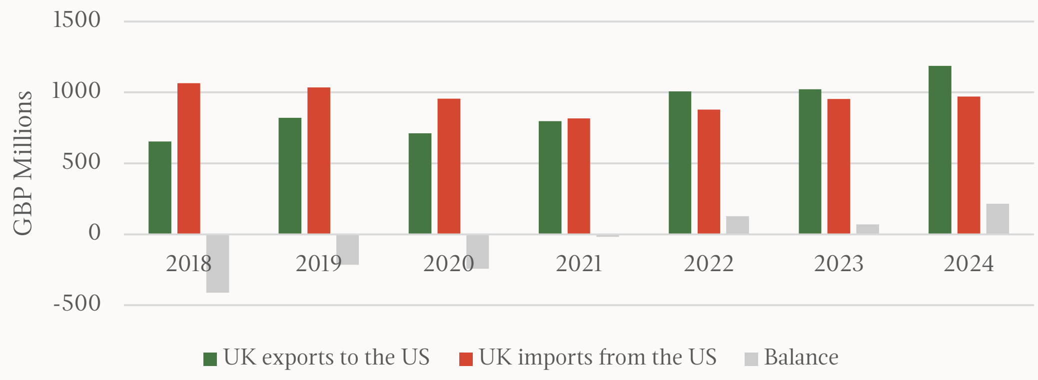
38 ONS. *Trade in goods: country-by-commodity, exports; country-by-commodity, imports.*

The US and UK EPD agreed on a reciprocal 13,000 tonne tariff-free quota for beef, as well as the aforementioned tariff-free quota for 1.4 billion litres of ethanol, classified as an agri-food product. Additionally, the two countries agreed to improve market access for agricultural goods. The board in the White House press conference announcing the EPD also listed: cereals, fruit, vegetables, animal feed, tobacco, soft drinks, and shellfish, although none of these goods were mentioned in the details published about the EPD so far.

The US and UK also committed in the EPD to increase agricultural cooperation on areas such as export verification in order to facilitate greater trade and more formal bilateral engagement through international standard-setting bodies. This will be impossible if the EU is making the UK's agri-food regulations.

There is a widely held belief in the UK that all US meat is produced in the same way and that all US meat does not meet UK food standards. This is not true. Although the US Food and Drug Administration (USFDA) has approved the use of the feed additive ractopamine in pig production and hormone growth promotant (HGP) pellets in beef cattle production, they are not used by all US farmers, and the USDA Food Safety and Inspection Service provides export certificates for non-hormone treated beef[39] while the USDA maintains a register of non-hormone treated beef producers.[40] It is estimated that only 60% of US pork producers use ractopamine,[41] and the USDA keeps a list of producers whose animals are free of any beta-agonists.[42] **These products could be imported into the UK as they meet UK food standards.** However, the UK's high tariffs on pork products make US pork uncompetitive, even though the UK imported 47% of the pork it consumed in 2023, almost all tariff-free from the EU.

Figure 6: *UK trade with the US in food & live animals*



Source: ONS UK Trade in goods: country by commodity. Prices as of March 2025.

39 United States Department of Agriculture. (n.d.). *Food Safety and Inspection Services, FSIS Inspector-In-Charge Responsibilities.* Available at: https://www.fsis.usda.gov/sites/default/files/media_file/2021-04/IICProc_121.pdf (Accessed 8 July 2025)

40 United States Department of Agriculture. (n.d.). *Official Listing of Approved Sources of Non-Hormone Treated Cattle.* Available at: https://www.ams.usda.gov/sites/default/files/media/LSOfficialListingNHTC.pdf

41 Lynch, K, Rozeboom, D., and Thompson, D. (2022), 'Food Safety of ractopamine-fed beef and swine', *Michigan State University*, 19 April, https://www.canr.msu.edu/news/food-safety-of-ractopamine-fed-beef-and-swine?form=MG0AV3&form=MG0AV3

42 United States Department of Agriculture (n.d.). *Official Listing of Approved Never Fed Beta Agonists Program.* Available at: https://www.ams.usda.gov/sites/default/files/media/LSOfficialListingNeverFedBetaAgonistsProgram.pdf (Accessed 8 July 2025).

Most of the UK's exceedingly high tariffs on agricultural goods imported from non-EU countries were inherited from the EU and were significantly higher than US agricultural tariffs in 2024. Many are still higher than US tariffs, including the additional 10% tariffs, despite the UK being a net food importer. (*See Table 4 below*). Since Brexit, the UK has been hesitant to lower these tariffs on non-EU imported food, even though they bind the UK to EU agricultural supply chains. Since leaving the EU, the UK has only converted its tariffs from euros to pounds, changed the collector to the UK's HMRC, removed any tariff below 2% and rounded down tariffs over 2% to the nearest whole number, and temporarily reduced tariffs on 162 items used in food manufacturing that the UK cannot produce[43], such as unsweetened orange juice.

Table 4: *Comparison of new US tariffs with UK agricultural tariffs*

Product Code	Food type	New April 2025 US tariff rate including additional 10%	Equivalent ad valorem tariff applied by the United Kingdom on US goods
1	Live animals	10%	12%
2	Meat and edible meat offal	15%	28%
3	Fish and crustaceans, molluscs and other aquatic invertebrates	10%	10%
4	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	27%	29%
7	Edible vegetables and certain roots and tubers	15%	14%
8	Edible fruit and nuts; peel of citrus fruit or melons	12%	10%
9	Coffee, tea, maté and spices	10%	2%
10	Cereals	11%	12%
11	Products of the milling industry; malt; starches; inulin; wheat gluten	12%	19%
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal; straw and fodder.	11%	0%
15	Animal, vegetable or microbial fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	13%	9%
16	Preparations of meat, of fish, of crustaceans, molluscs or other aquatic invertebrates, or of insects.	15%	27%
17	Sugars and sugar confectionery	23%	30%
18	Cocoa and cocoa preparations	15%	2%
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	15%	8%
20	Preparations of vegetables, fruit, nuts or other parts of plants	18%	23%
21	Miscellaneous edible preparations	19%	6%
22	Beverages, spirits and vinegar	11%	5%

Even with the US's additional 10% tariff, most of the UK's average applied tariffs on edible agricultural goods from the US are still higher, and this is before considering the UK's myriad agricultural non-tariff barriers. Only *oilseeds*, *cocoa and cocoa preparations*, *coffee and tea*, and *miscellaneous edible preparations* have significantly higher US tariffs. The UK does not produce these products, except for *miscellaneous preparations*, which include mustards and other condiments. The applied tariffs on US or UK *fish*, *dairy products*, *fruit and vegetables* are now similar. But incredibly, the UK's tariffs on US *meat*, *preparations of meat or fish*, *sugar*

43 McBride, C. (2024). 'Hear, hear for suspended food tariffs', *Briefings for Britain*, 19 April. Available at: https://www.briefingsforbritain.co.uk/hear-hear-for-suspended-food-tariffs/.

and confectionery, and *milled products* are still dramatically higher than US tariffs, despite the additional 10% tariffs.

Average tariffs also mask significantly higher tariff rates on individual products, as shown in Table 5, below. The UK applies lower rates on goods that it can not produce, such as soy, or on goods that are not easily transported, such as eggs, or on goods for which there is little or no demand in the UK, such as birds' nests and horse meat. Popular foods that can be produced in the UK, although not in large enough quantities to satisfy UK demand, have retained very high tariffs. For example, the UK applies 50% tariffs on US butter and 55% tariffs on US frozen beef.

Table 5: *Comparison of new US tariffs with UK tariffs on dairy and meat*

4 Digit HS Code	Product Description	Equivalent ad valorem tariffs applied	
		on US goods by the UK	on UK goods by the US
Dairy			
0401	Milk or cream	24%	17%
0402	Sweetened or concentrated milk or cream	25%	26%
0403	Fermented milk or cream (yoghurt)	15%	37%
0404	Whey	48%	46%
0405	Butter	50%	28%
0406	Cheese and Curd	31%	31%
0407	Eggs, in shell	6%	11%
0408	Eggs, dried or processed	13%	16%
0409	Honey	17%	10%
0410	Insects, turtle eggs, bird's nests, and other edible products	8%	11%
Meat			
0201	Beef fresh or Chilled	39%	21%
0202	Beef Frozen	55%	20%
0203	Pork, fresh, frozen or chilled	18%	10%
0204	Sheep meat, fresh frozen or chilled,	43%	10%
0205	Horse or asses, mule or hinny meat	5%	10%
0206	Edible offal of above	14%	10%
0207	Poultry, meat and edible offal	19%	15%
0208	Rabbit, hare, quail, deer, frog or other animals	7%	15%
0209	Pig or poultry fat	30%	13%
0210	Salted, dried, smoked or flours of meat and edible offal	18%	11%

Source: UK Trade Tariff; US Harmonized Tariff Schedule.

However, the UK's high food tariffs are not limited to dairy products and meat. The UK also imposes 14% tariffs on animal feed imported from the US, even though animal feed is one of the UK's larger agricultural imports from the US. The tariff on animal feed is in fact one of the lower agricultural tariffs applied by the UK on US agricultural products: the UK imposes average tariffs of 17% on fruit or plant preparations, 28% on fruit juice, 17% on prepared cereal, 10% on frozen fish, 32% on bran and residue products, and mineral water incurs an 11% average applied tariff.[44]

Avoiding tariffs by moving production

Like cars and trucks, many US agricultural firms excluded from the UK market by exceptionally high tariffs have acquired UK production facilities. For example, the US chicken giant Pilgrim's Pride owns Moy Park[45], one of the UK's largest poultry producers. Another significant UK poultry producer, Avara Food, is a joint venture between US-based Cargill and the UK's Faccenda Foods.

Pilgrim's Pride acquired Moy Park in September 2017 from JBS S.A., the Brazilian multinational and the largest meat processing company in the world. Moy Park operates seven sites in the UK. The UK's ultra-high tariffs on imported foods have not prevented intensive food production methods from entering the UK; rather, they have merely protected the intensive food production companies that have acquired UK producers while limiting competition from other foreign producers, including those which are less intensive.

Similarly, US pork-producing companies such as Morliny Foods operate in the UK as well as in Poland, Romania, Slovakia, Hungary, and Spain.[46] Morliny is owned by the Hong Kong company WHGroup, which also owns Smithfield Foods, a large US pig farm and pork production company. Pilgrim's UK, a leading pork and prepared food company in the UK, is owned by JBS USA, formerly Swift & Company, another major US-based meat processing company and a wholly-owned subsidiary of JBS S.A.

Once again, we see that the high tariffs the UK imposes on US-origin food, ostensibly to keep US food out of the UK market, have failed. The major US food producers have simply established subsidiary businesses in the UK to gain market access. Smaller and more artisanal US producers are unable to compete in this way. **The UK's high tariffs on food effectively exclude the smaller, potentially higher-quality US food producers from the UK market.** According to the USDA 2022 Census of Agriculture, 93% of hog and pig farms in the US are family-run operations;[47] however, the UK's very high tariffs will continue to prevent such products from being imported.

UK agrifood exports to the US

A trade deal with the US may well benefit UK farmers rather than harm them. There is significant scope to increase UK exports.

Admittedly, the US is also protective of its agriculture. The United States also imposes tariffs and quotas on imported food and agricultural products. The key difference is that the US is a net food exporter with an export industry to protect, while the UK is a net food importer. In 2023, the US agricultural trade surplus was $178.7 billion, whereas the UK's trade deficit in food and live animals amounted to £35.2 billion ($45.6 billion). In 2024, the UK's trade deficit in food and live animals

44 UK Government. (n.d.). *Trade tariff: look up commodity codes, duty, and VAT rates.* Available at: https://www.gov.uk/trade-tariff (Accessed 8 July 2025).

45 Pilgrim's. (n.d.). *Facilities & Locations.* Available at: https://sustainability.pilgrims.com/our-company/facilities-and-locations/?-form=MG0AV3 (Accessed 8 July 2025).

46 Food and Drink Technology. (2024). *Smithfield Food divests its European operations*, 28 August. Available at: https://www.foodanddrinktechnology.com/news/54570/smithfield-foods-divests-its-european-operations/ (Accessed 8 July 2025).

47 United States Department of Agriculture. (2024). *2022 Census of Agriculture Highlights, Hogs and Pigs.* Available at: https://www.nass.usda.gov/Publications/Highlights/2024/Census22_HL_Hogs_Pigs.pdf?form=MG0AV3 (Accessed 8 July 2025).

increased to £38.3 billion ($49.6 billion).[48]

Australia, Canada, Denmark, Germany, and the Netherlands also have US quotas for condensed milk and evaporated milk used in food manufacturing. However, the UK, which is also a net milk exporter, does not have a quota to export milk to the US. Instead, 97% of UK milk exports go to Ireland.[49]

The UK's largest agrifood export to the US is beverages, particularly whisky and gin.[50] The US imported 18% of total UK beverage exports.[51] The UK has a considerable beverage trade surplus with the US even though the UK suspended its 25% retaliatory tariffs on US whiskey and bourbon imports in 2022. The 25% tariff was a response to the US's 25% tariffs on single malt Scotch whisky and Northern Ireland whiskey, which were part of a trade dispute between the US and the EU over aircraft subsidies. The US tariff was also suspended in June 2021 for 5 years. The suspension will expire in June 2026 unless a permanent solution is reached. The UK exported whisky worth $1.3 billion and gin worth $200 million to the US in 2024, when US tariffs were zero.[52] Permanent removal of the suspended US tariff should be part of any UK-US trade agreement, as Scotch whisky exports to the US fell by over £600 million during the 18-month period when the 25% US tariff was in place.[53]

The UK imposes an average applied tariff of 4.9% on imported US wines and fortified wines, and an average applied tariff of 6.9% on imported rum. The US did not apply tariffs on UK gin or rum exports, whereas the average wine tariff applied by the US was 2.7%.[54] These products now have an additional 10% tariff. **A comprehensive trade agreement between the UK and the US should remove both countries' tariffs on beverages.**

The ONS figures used in Figure 7, below, show the large imbalance in trade in beverages and tobacco. These figures do not include alcohol imported for industrial uses, such as ethanol, which is the UK's largest alcohol import from the US.

48 ONS. *Trade in goods: country-by-commodity, exports*; ONS, Trade in goods: country-by-commodity, imports. February 2025, current prices (Accessed 11 April 2025).

49 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c826%7c%7c%7c%7c0401%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c2%7c2%7c1%7c1 (Accessed 8 July 2025).

50 ONS. *Trade in goods: country-by-commodity exports.*

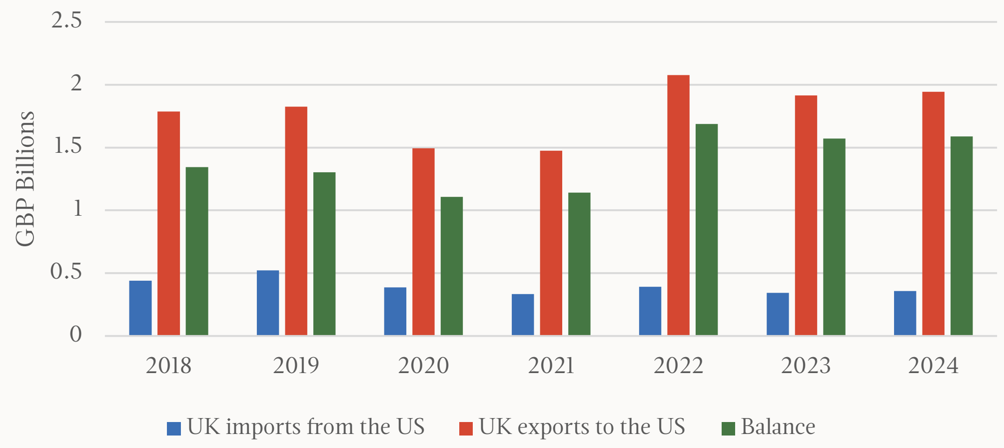
51 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral.aspx?nvpm=1%7c826%7c%7c842%7c%7c2208%7c%7c%7c4%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 9 July 2025).

52 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral.aspx?nvpm=1%7c826%7c%7c842%7c%7c2208%7c%7c%7c4%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 9 July 2025).

53 Elliards, X. (2025). 'Scotch whisky faces Trump tariffs in just 18 months – unless UK acts', *The National*, 2 February. Available at: https://www.thenational.scot/news/24901701.scotch-whisky-faces-trump-tariffs-just-18-months---unless-uk-acts/ (Accessed 8 July 2025).

54 UK HM Revenue & Customs. (2025). *Alcoholic products technical guide, Section 22 – exports*, 11 December. Available at: https://www.gov.uk/guidance/alcoholic-products-technical-guide/section-22-exports?form=MG0AV3 (Accessed 8 July 2025).

Figure 7: *UK-US trade in beverages and tobacco*



Source: ONS: Trade in goods: country by commodity. Prices as of March 2025.

Apart from beverages such as whiskey and gin, the UK's most significant agri-food export to the US is fish; **the US purchased 16% of UK fish exports in 2024, which are mostly imported tariff-free**.[55] Biscuits and cakes were the next most significant UK food export to the US; despite *ad valorem* tariff rates of 5%, the US still imported 8% of total UK biscuits and cake exports. The UK's third largest food export to the US, miscellaneous food products, with *ad valorem* tariff rates of 9%, were still 5% of UK miscellaneous food exports. All of these products will now have an additional 10% IEEPA tariff added to their import price.

US agrifood exports to the UK

The US produces meat that meets UK standards, as shown by the successful export of 157 tonnes of beef, 1,027 tonnes of pork, 536 tonnes of sausages, and 182 tonnes of meat products to the UK in 2024. However, this represents a small fraction of the UK's total meat imports: in 2024 the UK imported a total of 532,000 tonnes of chicken, 339,000 tonnes of fresh pork, 241,000 tonnes of beef, and 70,000 tonnes of sheep meat along with 221,000 tonnes of salted, smoked, or dried meats and 811,000 tonnes of meat products such as sausages. Almost all of which were imported from the EU, tariff and quota-free.[56] **It is unclear why the UK is restricting US meat imports, as the US, like Australia, has official registers of HGP-free beef and beta-agonist free pork that meet UK standards, as mentioned earlier in this paper.**

However, the US's largest agri-food export to the UK was recorded in *HS 22 beverages - HS 200710 ethyl alcohol of an alcoholic strength greater than 80%*. Ethanol is mainly used in industrial applications and as a petrol additive. It is now compulsory for petrol sold in the UK to contain either 5% (E5) or 10% (E10) ethanol. The US supplied 85% of the UK's million tonnes of imported ethanol in 2024 but the UK added average tariffs of 24% to its import price. Under the terms of the UK-US EPA, the UK will allow 1.4 billion litres of US ethanol to be imported tariff-free. The UK imported just over 1 billion litres of ethanol from the US in 2024 and 1.4 billion litres from all

55 ONS. *Trade in goods: country-by-commodity exports.*

56 ITC. *Trade Map.* Available at: https://www.trademap.org/Product_SelCountry_TS.aspx?nvpm=1%7c826%7c%7c%7c%7c02%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c1%7c2%7c1%7c1 (Accessed 8 July 2025).

destinations. The UK's entire production of ethanol in 2023 was only 153 million litres[57], so it will be necessary to import ethanol from the US if ethanol is to be a compulsory addition to UK petrol.

US exports of ethanol to the UK were over three times the value of the US's next largest agri-food export to the UK, *HS 08: Edible fruit and nuts*. The UK imports fruit and nuts worth over £5.6 billion, equal to 85% of the fruit it consumes, but it still imposes an average applied tariff of 10% on imported fruit from the US. The third-largest US agrifood export to the UK was *HS 21: Miscellaneous edible preparations* (with a UK average applied tariff of 6%), followed by *HS 23: Waste from the food industry*. The US's fifth largest agrifood export to the UK was *HS 12: Oilseeds*, which are largely tariff-free due to the EU's inhospitable climate for cultivating soy, and UK food tariffs remaining primarily based on EU production. For example, hop cones are also part of the oilseed group, but carry an average applied tariff of 6%, despite their use in beer production. The UK still imposes tariffs on hop cones to ultimately protect the world's second-largest producer, Germany, rather than dropping the tariff and importing them tariff-free from the world's largest producer, the US.

In addition to tariffs, the UK still employs quotas as it did while part of the EU; only the EU has a straightforward quota-free trade agreement with the UK. The recent trade agreements with Australia and New Zealand include quotas on agricultural imports that will last for 15 years for certain products. The UK has also imposed small, fixed quotas on agricultural goods exported by other Parties to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

Healthcare and pharmaceuticals

Pharmaceuticals accounted for 11% of UK exports to the US in 2024 and 7% of UK imports from the US. The UK medicinal and pharmaceutical exports to the US were worth £6.6 billion in 2024[58], equating to 27% of all UK medicinal and pharmaceutical exports and more than double the amount exported to the UK's second-largest market, Belgium, which acts as a distribution hub for the EU. The UK imported medicinal and pharmaceutical products worth £4 billion from the US in 2024.[59] The US was the UK's equal largest supplier of medicinal and pharmaceutical products, tied with Belgium.

NHS England purchases pharmaceuticals worth £19 billion each year and has strict cost-effectiveness thresholds to determine whether drugs offer value for money.[60] This often limits purchases of the latest drugs, which have large research and development (R&D costs) built into their prices, and for which there is less data on their cost-effectiveness. NHS procurement is governed by the Medicines Framework Agreements and Competitive Tendering, which favours local distribution networks, established relationships and familiarity with NHS systems.

The NHS also operates a voluntary scheme for branded medicines pricing and access, which sets a cap on the total allowed sales value of branded medicines to the NHS each year. The old

57 UK Department for Environment, Food & Rural Affairs. (2024). *Bioenergy Crops in England and the UK: 2008-2023 - GOV.UK*, 27 June. Available at: https://www.gov.uk/government/statistics/bioenergy-crops-in-england-and-the-uk-2008-2023/bioenergy-crops-in-england-and-the-uk-2008-2023 (Accessed 8 July 2025).

58 ONS. *Trade in Goods: country-by-commodity exports*. February 2025, current prices (Accessed 11 April 2025).

59 ONS, *Trade in Goods: country-by-commodity imports*, February 2025, current prices, April 11 2025.

60 NHS England (n.d.) *Medicines value and access*. Available at: https://www.england.nhs.uk/medicines-2/medicines-value-and-access/ (Accessed: 1 July 2025).

Voluntary Scheme for Branded Medicines Pricing and Access (VPAS) cap could only increase at a rate of 2% per annum, and any medicine sales exceeding the cap were clawed back via a levy. **In 2023, pharmaceutical companies participating in the scheme were required to pay back 26.5% of their medicine sales, amounting to £3.3 billion in sales revenue, up from £0.6 billion in 2021 and £1.8 billion in 2022**.[61] Some major US pharmaceutical firms, including AbbVie and Eli Lilly, withdrew from the scheme, citing concerns that the high revenue clawback rates had harmed innovation and made it difficult to advocate for the UK market for shareholders.

The NHS has now replaced VPAS with the Voluntary Scheme for Branded Medicines Pricing, Access, and Growth (VPAG). The new scheme allows annual NHS spending increases of up to 4% by 2027-28. VPAG has tiered clawback rates based on the novelty of the medicine and its price decline. Newer medicines pay 15.1%, while older medicines pay 10%, with adjustments made for price reductions. VPAG includes £400 million for R&D, but the US firms that left VPAS in 2023 have not been enticed to rejoin the new VPAG scheme. Although the clawbacks fell to just under £2 billion in 2024, the Association of the British Pharmaceutical Industry (ABPI) expects 2025 clawbacks to reach £3.5 billion, about 22.9% of medicine sales.[62] Other European countries also operate rebate schemes, but the UK's rebate rate is one of the highest in Europe. According to the ABPI, in France, the average rebate is 5.7%, in Italy it is 6.8%, in Germany it is 7%, in Spain it is 7.5%, in Belgium it is 7.9% and in Ireland, 9%. The ABPI believes the scheme is making the UK "un-investable."[63]

In the UK-US EPD, the UK promised to improve the overall environment for pharmaceutical companies operating in the United Kingdom. It is probable that the US was referring to the VPAG revenue clawbacks from US pharmaceutical companies. The EPD is also concerned with the security of supply chains for pharmaceuticals and their active ingredients. If the US is successful in onshoring active pharmaceutical ingredient (API) production, then US medicine suppliers could be more reliable than those in the UK, which continue to rely on imported active ingredients from India and China.[64]

Pharmaceuticals are generally imported tariff-free internationally and are presently exempt from the new Section 232 tariffs imposed by the US. However, the US Department of Commerce is conducting a Section 232 investigation on pharmaceutical imports to assess the threat to National Security. If the investigation finds that imported pharmaceuticals are a threat to US National Security, then the Trump Administration will impose tariffs on them. This would be devastating for UK exports to the US. *HS 30 Pharmaceuticals* are the UK's third largest export to the US, after vehicles and machinery.

The US and the UK are both signatories to the Pharmaceutical Tariff Elimination Agreement[65], agreeing to eliminate tariffs on all finished pharmaceutical products covered by *HS 30*, including

61 Mahase, E. (2023). 'AbbVie and Eli Lilly leave UK pricing scheme over revenue repayments', *The BMJ*, 30 January. Available at: https://www.bmj.com/content/380/bmj.p207 (Accessed 8 July 2025).

62 Barham, L. (2025). 'Buyer's remorse: the UK's VPAG', *Pharmaphorum*, 28 April 2025. Available at: https://pharmaphorum.com/market-access/buyers-remorse-uks-vpag (Accessed 8 July 2025).

63 ABPI. (2025). *Medicine levy makes the UK un-investable, say Pharma leaders*, 20 March. Available at: https://www.abpi.org.uk/media/news/2025/march/medicine-levy-makes-the-uk-un-investable-say-pharma-leaders/ (Accessed 8 July 2025).

64 Chandana, D. (2024). *Overview of the Active Pharmaceutical Ingredient Market*. IQVIA Chemical Intelligence. Available at: https://www.iqvia.com/-/media/iqvia/pdfs/library/white-papers/iqvia-innsight-api-market-article-02-24-forweb.pdf (Accessed 8 July 2025).

65 European Parliament. (2004). *The Pharmaceutical Tariff Elimination Agreement (Zero for Zero)*. E-0213/2004, 21 January. Available at: https://www.europarl.europa.eu/doceo/document/E-5-2004-0213_EN.html?form=MG0AV3 (Accessed 8 July 2025).

pharmaceuticals imported from countries that are not signatories to the agreement. The agreement automatically covers all finished pharmaceutical products, but not active ingredients or substances used to manufacture pharmaceuticals, although these may be formally added to the list of eligible tariff-free products. However, certain medical equipment can be subject to tariffs in both the US and the UK.

The UK has a large pharmaceutical and medical equipment industry that exports goods to the US. UK pharmaceutical and healthcare companies GSK and AstraZeneca both have significant operations in the US, as do UK medical technology companies Smith & Nephew and BTG plc. At the same time, many US healthcare and pharmaceutical companies operated in the UK.

The NHS imports and uses pharmaceuticals, diagnostic tests, and medical equipment made in the US. Besides the NHS, there is a growing private health care industry in the UK. The Association of British Insurers reports that 6.2 million people in the UK now have private health insurance, of which 4.7 million have private medical insurance through their employer.[66] US health insurance companies, such as Cigna Global, Aetna International, and UnitedHealthcare Global, all sell medical insurance in the UK. There are also several US-owned private hospitals operating in the UK, including HCA Healthcare Inc., the Mayo Clinic, and the Cleveland Clinic, all of which have facilities in the UK. The Cleveland Clinic recently opened a 184-bed hospital in central London as well as two outpatient centres.[67] HCA Healthcare has hospitals in Manchester and London.

The growth in private medical care in the UK will be a key factor in any trade agreement with the US. Like agriculture, healthcare was identified as a sensitive area in the Department for International Trade's scoping document for a UK-US free trade agreement, published in 2019.[68] The government document mentioned the NHS 56 times, and almost all references were statements of how the government would protect the NHS in trade negotiations such as: "NHS is not, and never will be, for sale to the private sector, whether overseas or domestic", and "the price the NHS pays for drugs will not be on the table", and "the services the NHS provides will not be on the table." etc. Although the increased use of private healthcare suggests that UK public sentiment about the NHS is shifting, people attempting to block the trade agreement will use 'protecting the NHS' as a point of contention, despite the fact that the UK has a trade surplus with the US in pharmaceuticals.

Current UK-US Service trade by type of service

The US is by far the UK's largest export market for services. The UK exported services worth just under £137 billion to the US in 2024 and imported services worth £61 billion, according to the UK's ONS.[69] The UK was the US's largest market for service exports; the US exported services to the UK worth $99.4 billion in 2024 and imported services worth $93 billion from the UK, according

66 ABI. (2024). *Private medical insurers report record 4.7 million covered by employer health schemes.* 6 November. Available at: https://www.abi.org.uk/news/news-articles/2024/112/private-medical-insurance-data-2023/?form=MG0AV3 (Accessed 8 July2025).

67 Cleveland Clinic London. (n.d.). *Why choose Cleveland Clinic London?* Available at: https://clevelandcliniclondon.uk/?-form=MG0AV3#:~:text=Why%20Choose%20Cleveland%20Clinic%20London%3F (Accessed 8 July 2025).

68 UK Department for International Trade. (2019). *UK-US Free Trade Agreement.* Available at: https://assets.publishing.service.gov.uk/media/5e5ce566d3bf7f06f6ece234/UK_US_FTA_negotiations.pdf (Accessed 8 July 2025).

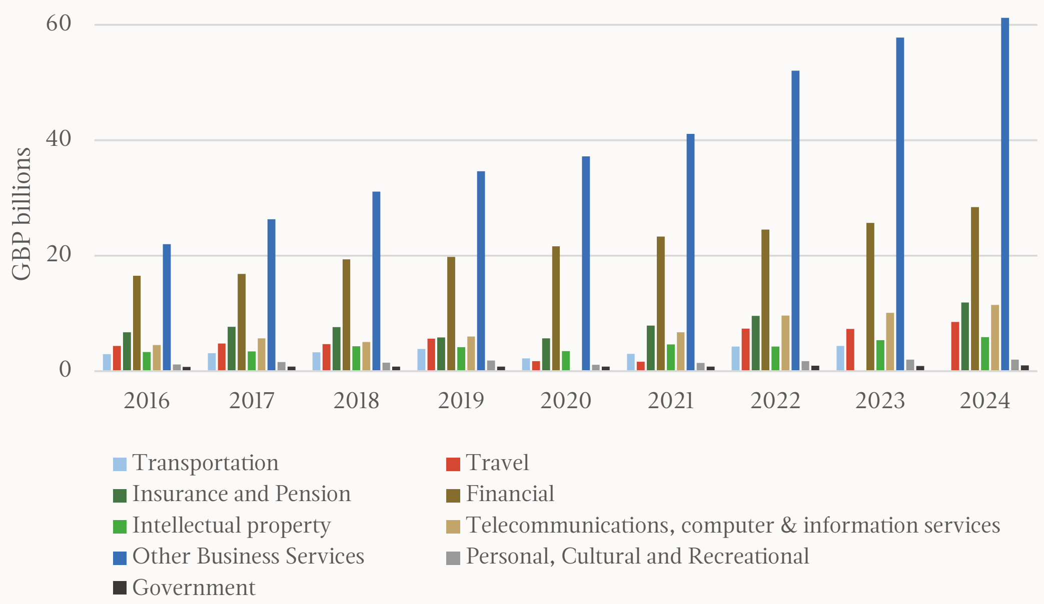
69 Office for National Statistics. (2024). *UK trade in services: service type by partner country, Q3 2024.* Available at: https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyad-justed (Accessed 8 July 2025).

to the US Bureau of Economic Analysis (BEA).[70]

There is obviously a large difference between the US and UK service trade figures, which may be due to the differences in collecting the data: the US BEA uses survey data and divides services trade into nine sectors[71] while the UK's Office of National Statistics (ONS) uses Balance of Payments BPM6 and divides service trade into twelve sectors.[72] A third group, the UN's Comtrade, has different figures again. However, all three data collection groups agree that the US and the UK are each other's largest service trading partners.

There are, of course, some differences in regulations, and some US financial and insurance services are regulated at the state level rather than the federal level, so UK companies wishing to export their services need to gain approval in each state from the state regulator. Whether this can be overcome in a trade agreement should be explored as the Bank of England's Financial Conduct Authority and Prudential Regulation Authority cover financial imports from US companies by all nations in the UK. As does Ofcom, the UK's communications and media regulator.

Figure 8: *UK major service exports to the US by type of service*



Source: ONS: UK trade in services by service type and partner country

70 Bureau of Economic Analysis, US Department of Commerce. (n.d.). *US International Trade by Selected Countries and Areas.* Available at: https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.bea.gov%2Fsites%2Fdefault%2F-files%2F2024-12%2Ftrad-geo-time-series-1024.xlsx&wdOrigin=BROWSELINK (Accessed 8 July 2025).

71 Bureau of Economic Analysis, US Department of Commerce. (n.d.). *A Guide to BEA's Services Surveys*. Available at: https://www.bea.gov/sites/default/files/2018-08/surveysu.pdf (Accessed 8 July 2025).

72 Office for National Statistics. (2014). *National Accounts articles: Impacts of changes to the measurement of the Balance of Payments as a result of the introduction of BPM6 - GOV.UK*, 3 September. Available at: https://www.gov.uk/government/statistics/national-accounts-articles-impacts-of-changes-to-the-measurement-of-the-balance-of-payments-as-a-result-of-the-introduction-of-bpm6?form=MG0AV3 (Accessed 8 July 2025).

Other business services

The UK's largest services export is *Other business services*. This is larger than any of the UK's goods export sectors and includes legal, accounting, and consulting services. A third of UK exports in this sector go to the US, and over 30% of UK Other business service imports come from the US.[73]

The steady increase in UK *Other business services* exports to the US occurred when UK corporate taxes were only 19%. Many companies in the Other Business Services sector have operations in both the US and the UK. It will not be difficult for companies that sell their accounting expertise to international clients to work out how to legally book a greater proportion of their own profits to their New York office rather than to their London office.

With similar accounting regulations, this sector would benefit from mutual recognition of qualifications; however, the USTR Report on Foreign Trade Barriers states that the UK requires certified US chartered accountants to have professional experience in the UK *before* they can obtain authorisation to practice in the UK.[74] The professional bodies involved are addressing this barrier.

Financial services

In 2024, 36% of the UK's financial service imports came from the US, while 28% of the UK's financial service exports went to the US.[75] The largest export revenues in financial services derive from mergers and acquisitions, capital raising, new issues, private equity, foreign exchange, and investment management. London remains the epicentre of global foreign exchange, with nearly half of all transactions occurring there, it is the home of the London Bullion Market, the international market for gold and precious metals, and has an investment management industry with over $9 trillion in assets under management (AUM).[76] Almost half of the AUM in the UK are managed on behalf of foreign clients.

However, an increasing number of companies are choosing to list in the US rather than the UK. There are significant regulatory differences between the listing requirements of the US and UK stock exchanges. For example, the proportion of free float shares required for listing on the London Stock Exchange (LSE) is either 25% for a premium listing or 10% for a standard listing, while the New York Stock Exchange (NYSE) requires a minimum number of 400 shareholders holding at least 100 publicly held shares and allows companies to list different classes of shares allowing entrepreneurs to maintain control over their companies after listing. The LSE also requires at least 40% of listed company board members to be women, one of whom must hold a senior board position, and at least one board member must be from a minority ethnic background.[77] In comparison, the NYSE has no mandatory diversity requirements for company boards. The Bank of England requires UK banks to adhere to Environmental, Social, and Governance (ESG) regulations, and it has integrated climate-related financial risks into its supervisory framework. Banks and insurance companies are expected to assess the impact of climate change on their operations

73 ONS. *UK trade in services: service type by partner country, non-seasonally adjusted.*

74 USTR, *2025 National Trade Estimate Report on Foreign Trade Barriers.*

75 ONS. *UK trade in services: service type by partner country, non-seasonally adjusted.*

76 The Investment Association. (2024). *UK Investment Management in 5 Charts 2023-24*. Available at: https://www.theia.org/sites/default/files/2024-08/UK%20Investment%20Management%20in%205%20charts.pdf?form=MG0AV3 (Accessed 8 July 2025).

77 Financial Conduct Authority. (2025). *PS22/3: Diversity and inclusion on company boards and executive management*, 20 April. Available at: https://www.fca.org.uk/publications/policy-statements/ps22-3-diversity-inclusion-company-boards-executive-managment?form=MG0AV3 (Accessed 8 July 2025).

and ensure they have robust risk management practices in place to mitigate potential risks.[78]

Many technology entrepreneurs are choosing the US for their initial public offerings (IPOs) as it has deeper capital pools, higher valuations, allows different share classes and smaller issue requirements, while entrepreneurs need not fit into the LSE's gender, ethnicity or environmental mandates.

In 2024, there were 225 IPOs on US stock markets[79] but only 16 IPOs on the LSE[80]. Several UK companies have also chosen to move their primary listing from the UK to the US. Former FTSE 100 members Flutter Entertainment and CRH plc have already moved, while another FTSE 100 member, Ashtead Group, announced in December 2024 they would move to the US and even Shell, the UK's second-largest company with a market capitalisation of £160 billion[81], has considered moving its primary listing from London to New York. Indivior[82] and Wise[83] have also recently announced that they will move their primary listing to the US.

Insurance and pensions

Although this is the smallest of the UK's three main services exports to the US, **the insurance and pensions sector relies on the US market for their export revenue**, with 41% of UK insurance and pension export revenue coming from the US in 2024, more than double the value of the combined exports to all EU27 countries.[84] The UK imported 18% of its pension and insurance services from the US.

After leaving the EU, the UK granted the US regulatory equivalence in insurance and reinsurance through the Bilateral Agreement on Prudential Measures regarding Insurance and Reinsurance, which came into force in December 2020.[85] The agreement: protects insurance and reinsurance policyholders and other consumers while respecting each party's system for insurance and reinsurance supervision and regulation; affirms that prudential measures applicable in the UK achieve a level of protection for policyholders required by the US regulations; and acknowledges the need for co-operation between UK and US supervisory authorities including the exchange of confidential information, given the increased globalisation of insurance and reinsurance markets. The agreement also eliminated the local presence requirements and collateral requirements for reinsurance agreements between firms domiciled in either party's territory; recognised each party's supervisory authorities with respect to prudential group supervision of solvency and capital, governance and reporting requirements; and established the home supervisory

78 Bank of England. (2023). *Bank of England report on climate-related risks and the regulatory capital frameworks*, 13 March. Available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2023/report-on-climate-related-risks-and-the-regulatory-capital-frameworks?form=MG0AV3, (Accessed 8 July 2025).

79 Stock Analysis. (n.d.). *All 2024 IPOs*. Available at: https://stockanalysis.com/ipos/2024/?form=MG0AV3 (Accessed 8 July 2025).

80 Sanders, P. (2025). *UK IPOs were thin on the ground but performed strongly in 2024*. Trustnet, 13 January. Available at: https://www.trustnet.com/News/13434728/uk-ipos-were-thin-on-the-ground-but-performed-strongly-in-2024/?form=MG0AV3 (Accessed 8 July 2025).

81 London Stock Exchange. (n.d.). *FTSE 100 Constituents*. Available at: https://www.londonstockexchange.com/indices/ftse-100/constituents/table (Accessed February 2025).

82 Alliance News, (2024). 'Indivior to leave London Stock Exchange in July to focus on US listing,' *Morningstar*, 2 June. Available at: https://www.morningstar.co.uk/uk/news/AN_1748857696474765400/indivior-to-leave-london-stock-exchange-in-july-to-focus-on-us-listing.aspx (Accessed: 1 July 2025).

83 Norman, S. (2025). 'UK fintech Wise ditches London primary listing for US,' *CityAM*, 30 June. Available at: https://www.cityam.com/uk-fintech-wise-ditches-london-primary-listing-for-us/ (Accessed: 1 July 2025).

84 ONS. *UK trade in services: service type by partner country, non-seasonally adjusted.*

85 UK Government. (2024). *UK-USA Agreement on Prudential Measures Regarding Insurance and Reinsurance (TS 66/2024).* Available at: https://assets.publishing.service.gov.uk/media/66e062d3a325829f6a5e2656/TS_66.2024_UK_USA_Prudential_Measures_Insurance.pdf (Accessed: 8 July 2025).

authority, not the host supervisory authority, would exercise worldwide prudential insurance group supervision. The US and UK also agreed the exchange of information between supervisory authorities of each party and recommended practices for such exchange.

In the US, the regulation of insurance and pension funds is primarily at the state level, with each state having its own insurance department and regulations.[86] However, there are also federal laws, such as the Employee Retirement Income Security Act (ERISA), which set minimum standards for most voluntarily established retirement and health plans in private industry.[87]

Intellectual property trade

Intellectual property (IP) is a growing part of service trade. The UK's imports of IP from the US have more than doubled since 2016, and the US provided 37% of the UK's total IP imports in 2024. UK IP exports to the US have grown at a slower pace of 80% since 2016 and are now just below UK IP imports from the US. The US is still the UK's largest IP market, buying 19% of UK IP exports in 2024. Over half of the UK's IP exports to the US are licences for R&D, while 40% of UK imports of IP from the US are franchise and trademark licensing.

UK imports of US audio-visual licensed products have increased by over 70% since 2016. This is not surprising. The US and UK share similar tastes in music, film, and streaming services, use similar franchises and trademarks, R&D computer software and patented materials. The US is a major supplier of audio-visual products to the UK, and the US market represents a substantial portion of revenue for UK film, television, and music companies.

This market now encompasses broadcast video on demand, advertising on demand, catch-up services, streaming services such as Netflix and Amazon Prime, and video games. One of the world's best-selling video games, *Grand Theft Auto*, is made by the Edinburgh-based company Rockstar North, with the US providing a substantial proportion of their revenue. Aardman Animation, the creators of *Wallace & Gromit*, and eOne, the producers of *Peppa Pig*, also receive a substantial proportion of their revenue from the US.

UK music artists, including Adele, Ed Sheeran, Coldplay, and Elton John, are all signed to labels owned by US-based music companies such as Sony Music Entertainment, Universal Music Group, and Atlantic Records. However, the USTR Report on Foreign Trade Barriers is concerned that UK music copyright collectively fails to remunerate U.S. artists for radio broadcasts and public performances of their music in the UK.[88] **This would need to be addressed in a trade agreement.**

According to the US International Trade Administration, 25% of films released in the UK in 2019, which represented 50% of box office earnings, were produced in the US.[89] Additionally, US studios contributed 78% of the £1.9 billion spent on UK film production in 2020. The UK's filmed entertainment market, which includes film, television, and video production, as well as post-

86 National Association of Insurance Commissioners. (2023). *State Insurance Regulation: Key Facts and Market Trends*. Available at: https://content.naic.org/sites/default/files/publications-key-facts-market-trends-united-states.pdf?form=MG0AV3 (Accessed 8 July 2025).

87 US Department of Labor. (1974). *Employee Retirement Income Security Act (ERISA)*. Available at: https://www.dol.gov/general/topic/retirement/erisa (Accessed 8 July 2025).

88 USTR, *2025 National Trade Estimate Report on Foreign Trade Barriers*.

89 US International Trade Administration. (2021). *United Kingdom Filmed Entertainment and Streaming Market*, 5 November. Available at: https://www.trade.gov/market-intelligence/united-kingdom-filmed-entertainment-and-streaming-market?form=MG0AV3 (Accessed 8 July 2025).

production and distribution activities, has an approximate annual turnover of $26 billion.

The American film production company Warner Bros. operates a studio in the UK, while UK independent studios Pinewood and Shepperton are utilised by Universal Pictures, Sony Pictures, Disney, and Paramount. Another studio specialising in 3D productions is planned in Buckinghamshire, pending planning approval. The Chancellor of the Exchequer for the UK, Rachel Reeves, has expressed her support for this project as part of her rationale for amending UK regulations regarding development on green belt land.[90] US music companies Universal Music Group, Warner Music Group, and Sony Music Group have recording studios and production facilities in the UK. This isn't all one way: UK film and television companies Carnival (makers of *Downton Abbey*), Fresh Film, and Lupus Films have production facilities in the US.

Traditionally, there are no tariffs on services; however, President Trump is unhappy about the number of US production company films that are now produced outside the US due to foreign tax incentives and has threatened to impose 100% tariffs on them. The UK does offer tax incentives for US film companies, including an audiovisual expenditure credit of 25.5% for live action films, 29.5% relief for animated films, 39.75% relief on up to £15 million for films with budgets below £23.5 million, and 29.25% relief for visual effects costs.[91] Film studios in England can also receive a 40% reduction on their business rates.[92] So while President Trump does have a point about tax incentives, films are licenced rather than sold, so there are no physical goods to tariff at the border, and despite the UK's generous tax incentives, the UK imported twice the value of licences to reproduce and distribute audio visual related products from the US in 2024 than it exported to the US.

IP regulations, durations, and limits

The UK and the US have similar copyright regulations, although US copyright can last much longer.[93] Works created in the US after 1978 have copyright protection lasting for the life of the author plus an additional 70 years, while products created as part of employment have copyright lasting for 95 years from their initial publication. In comparison, in the UK, the duration of copyright protection varies depending on the type of work.[94] Copyright for written, dramatic, musical, and artistic works lasts for 70 years after the author's death, similar to the US, while copyright for sound and music recordings lasts for 70 years from the date of first publication or from the date of creation. Film copyright lasts for 70 years following the death of the director, screenplay author, and composer. Broadcast copyright lasts for 50 years from the date of the first broadcast. Meanwhile, the copyright for the layout of published editions of written, dramatic, or musical works lasts for 25 years from the date of first publication.

Both the US and the UK impose similar limitations on patent protection. The UK excludes

90 Reuters. (2024). 'British film investors aim to revive studio plan amid push for growth', *Business Standard*, 29 August. Available at: https://www.business-standard.com/world-news/british-film-investors-aim-to-revive-studio-plan-amid-push-for-growth-124082900242_1.html?form=MG0AV3 (Accessed 8 July 2025).

91 British Film Commission. (n.d.). *Accessing UK Tax Reliefs*. Available at: https://britishfilmcommission.org.uk/plan-your-production/accessing-uk-tax-reliefs/ (Accessed 8 July 2025).

92 UK Ministry of Housing, Communities, and Local Government. (2025). *Business rates: Film studio relief - local authority guidance*, 17 February. Available at: https://www.gov.uk/guidance/business-rates-film-studio-relief-local-authority-guidance (Accessed 8 July 2025).

93 US Copyright Office. (n.d.). *How Long Does Copyright Protection Last?* Available at: https://www.copyright.gov/help/faq/faq-duration.html?form=MG0AV3 (Accessed 8 July 2025).

94 UK Government. (n.d.). *How long copyright lasts*. Available at: https://www.gov.uk/copyright/how-long-copyright-lasts?form=MG0AV3 (Accessed 8 July 2025).

discoveries, scientific theories or mathematical methods, the manner in which information is presented, 'essentially biological' processes like cross-breeding animals or cultivating varieties of plants, and software designed for a 'non-technical' purpose. Only software with a technical application can be granted a patent in the UK.[95] In the US, scientific discoveries, biological processes, and methods of medical treatment and diagnosis are generally not patentable. The US Patent and Trademark Office excludes these categories from patentability, considering them as natural phenomena or abstract ideas.[96] However, new and useful applications of these discoveries, such as medical devices or pharmaceutical products, can be patented.

Some products and processes can be patented in the US but not in the UK. For example, the US allows patents for software-related inventions if they meet certain criteria,[97] whereas the UK has stricter requirements and generally does not grant patents for software as such. The US grants patents for certain business methods, while the UK does not consider business methods to be patentable subject matter. Most importantly, the US has specific regulations regarding the patentability of genetic material, whereas the UK has different criteria and may not grant patents for the same genetic inventions.

Genetic research and the development of new crops or other genetic inventions based on this research is an important industry in the US, and now that the UK is outside the EU, such an industry has the possibility to also thrive in the UK; however, it would require (unilaterally) streamlining the UK's patent regulations to align with those of the US. The UK still follows the European Patent Convention, which allows the patenting of genetically modified organisms if they are sufficiently novel and have an industrial application but excludes from patentability many of the processes used to create them.

Digital trade

Reaching an agreement on digital trade will be important; however, the US and the UK currently have very different attitudes towards digital tax jurisdictions, free speech, and online protection.

In April 2020, the British Government introduced a 2% digital services tax (DST) on the revenues of search engines, social media services and online marketplaces which derive value from UK users. Businesses are liable for DST when the group's worldwide revenues from digital activities are more than £500 million and more than £25 million of their digital revenues are derived from UK users. If the group's revenues exceed these thresholds, its revenues derived from UK users will be taxed at a rate of 2%. There is an allowance of £25 million, which means a group's first £25 million of revenues derived from UK users will not be subject to DST. The digital companies that meet these thresholds are predominantly US companies. The British Government has committed to disapplying the DST once an appropriate international tax solution is in place. The tax is due to be reviewed this year.

The DST is a tax on turnover, not profits, for business groups whose revenues from in-scope

95 UK Government. (n.d.). *Apply for a patent*. Available at: https://www.gov.uk/patent-your-invention?form=MG0AV3#:~:text=Only%20software%20with%20a%20technical%20purpose%20can%20be%20granted%20a%20patent (Accessed 8 July 2025).

96 Hamer, C. (2018). 'What can (and can't) be patented?', *Mathys & Squire*, 17 December. Available at: https://www.mathys-squire.com/insights-and-events/news/what-can-and-cant-be-patented/?form=MG0AV3 (Accessed 8 July 2025).

97 Bailey, J. and Tyson, A. (2021). 'Process Patents: Are They Worth It?', *The Chemical Engineer*, 28 June. Available at: https://www.thechemicalengineer.com/features/process-patents-are-they-worth-it/?form=MG0AV3 (Accessed 8 July 2025).

activities are more than £500 million and where more than £25 million is derived from UK users. HMRC collected revenues of £358 million for the year 2020–21 (30% more than forecast due to the unpredictable impact of the COVID-19 pandemic), with 90% coming from five business groups. HMRC did not disclose the names of the five companies paying the tax, but it is believed to be Amazon, Alphabet, Microsoft, Meta and Apple.[98] DST was forecast to raise around £3 billion by 2024–25.[99] However, in 2024-25, DST only raised £808 million.[100] As the tax has raised less than originally expected and is clearly aimed at US companies, it should be seen as a negotiating point for the UK in any trade agreement.

The UK's Online Safety Act also has significant implications for US technology companies, search engines, digital marketplaces, and social media platforms. Tech companies are required to identify and remove illegal content and protect children from harmful material, with fines for non-compliance of up to £18 million or 10% of global revenue, whichever is greater. Platforms will need to demonstrate to the UK regulator, OFCOM, that they have processes in place to meet the requirements outlined in the Act. Criminal action can be taken against senior managers who fail to ensure their companies comply with the Act. In the most extreme cases, with the agreement of the courts, Ofcom will be able to require payment providers, advertisers, and internet service providers to cease working with a site, thereby preventing it from generating revenue or being accessed from the UK. The Act gives Ofcom the powers to take appropriate action against all companies in scope, including those based outside the UK, where services have a significant number of UK users or where UK users are a target market, or "have in-scope content that presents a risk of significant harm to people in the UK."[101]

In response, the White House issued a Directive to Prevent the Unfair Exploitation of American Innovation in February 2025, aimed at the UK and EU DSTs and their suppression of speech on the internet.[102] President Trump believes foreign governments are appropriating America's tax base for their own benefit and has directed the United States Trade Representative (USTR) to renew the DST investigations under Section 301 that were initiated during President Trump's first term and investigate any additional countries that use a DST to discriminate against U.S. companies. **The White House is also concerned about the Online Safety Act's potential to undermine Free Speech, foster censorship or force access to US intellectual property.** The UK's Online Safety Act can also reduce trade as companies must conduct risk assessments and implement measures to protect users from harmful content, which increases operational costs, particularly for smaller businesses. We have already seen small internet groups closing their sites to UK users to avoid the Online Safety Act.[103]

98 TaxWatch. (2023). *Seven large tech groups estimated to have dodged £2bn in UK tax in 2021*, 16 October. Available at: https://www.taxwatchuk.org/seven-large-tech-groups-estimated-to-have-dodged-2bn-in-uk-tax-in-2021/ (Accessed 8 July 2025).

99 UK Parliament. (2023). *The Digital Services Tax*, 5 April. Available at: https://publications.parliament.uk/pa/cm5803/cmselect/cmpubacc/732/report.html (Accessed 8 July 2025).

100 HM Revenue & Customs. (2025). *HMRC tax receipts and National Insurance for the UK (annual bulletin)*. Available at: https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-annual-bulletin (Accessed 8 July 2025).

101 UK Department for Science, Innovation & Technology. (2025). *Online Safety Act: explainer*, 17 March. Available at: https://www.gov.uk/government/publications/online-safety-act-explainer/online-safety-act-explainer (Accessed 8 July 2025).

102 The White House. (2025). *Fact Sheet: President Donald J. Trump issues Directive to prevent the Unfair Exploitation of American Innovation*, 21 February. Available at: https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-issues-directive-to-prevent-the-unfair-exploitation-of-american-innovation/ (Accessed 8 July 2025).

103 Titcomb, J. (2025). 'Hamster forum and local residents' websites shut down by new internet laws', *The Telegraph*, 18 March. Available at: https://www.telegraph.co.uk/business/2025/03/18/hamster-forum-local-residents-websites-shut-down-new-laws/ (Accessed 8 July 2025).

This will be an area of contention between the US and the UK because US tech companies are clearly the target of both the tax and the Act. **Ideally, any trade agreement between the UK and the US should follow the United States-Mexico-Canada Agreement (USMCA) in the treatment of digital trade.** It is the most recent agreement and comprehensively covers a growing industry that has developed most since other comparative trade agreements were written. The USMCA provisions for digital trade aim to promote a secure and open digital trade environment.[104]

The USMCA prohibits tariffs on digital products; allows data to be transferred across borders without restrictions; does not require data to be stored locally; includes enforceable consumer protections, such as privacy and protection against unsolicited communications; promotes open access to government-generated public data; encourages collaboration among the parties to address cybersecurity challenges; and limits the liability of third-party platforms for content created by users. The USMCA digital chapter was also used as a template in the 2019 US-Japan Digital Trade Agreement.[105]

Existing non-tariff barriers to UK-US trade

Trade barriers exist in a more complex form than simple tariffs, and non-tariff barriers can be more effective at blocking or limiting trade volumes. Many things that act as trade barriers are just traditional differences in a company's domestic market. For example, cars designed to fit comfortably in ancient European cities, whose streets were originally built for horses and carts, can also be driven and parked easily in modern cities with wider roads and larger parking spaces, such as those found in the US. But this obviously doesn't work in the opposite direction; many larger US sport utility vehicles (SUVs) and pick-up trucks could not be driven on all European roads and would not fit into a typical European parking space. The size of vehicles is a form of trade barrier, but it is not a deliberate one.

However, **many other trade barriers have been deliberately designed to reduce imports from more efficient producers**. Trade barriers based on standards can be implemented with the intention of blocking or preventing trade. Large manufacturers that depend on trade for survival will circumvent this by producing a variety of goods that comply with different national standards, although many small manufacturers will not be able to produce more than one product line economically. For example, the EU and China have banned the use of hormonal growth promotants (HGPs) in beef cattle, a practice widely used in the US and Canada, even though the EU was unable to present a scientific justification for the import restrictions to the WTO as the cattle are given the same bovine hormones as occur naturally. Beef producers in Australia who rely on exports to both the US and China produce hormone-free beef for the Chinese market and HGP beef for the US market. Canadian ranchers, who, like Australian ranchers, also rely on exports, do not split their production in the same way, as almost all of their beef exports go to the US, although the Canadian government does run a hormone-free certificate program for ranchers who want to sell to China or the EU. Certifying that goods meet a particular standard

104 United States Trade Representative. (2020). *The United States-Mexico-Canada Agreement Fact Sheet, Digital Trade*. Available at: https://ustr.gov/sites/default/files/files/Press/fs/USMCA/USMCA-Digital_Trade.pdf?form=MG0AV3 (Accessed 8 July 2025).

105 United States Trade Representative. (2019). *Agreement Between The United States of America and Japan Concerning Digital Trade*, 7 October. https://ustr.gov/sites/default/files/files/agreements/japan/Agreement_between_the_United_States_and_Japan_concerning_Digital_Trade.pdf (Accessed 8 July 2025).

obviously adds costs to production, but without it trade can be prevented completely.

Non-tariff trade barriers fall into four categories:

- **Quantitative limits:** where imports are limited by a quota either completely or by limiting the amount of a product that can be imported tariff-free or with a reduced tariff. Both the US and the UK do this. Even though the UK has granted quota-free access to EU products, it limits imports of other countries' goods, including countries with whom they have a free trade agreement (FTA).

- **Product standards:** these can be technical barriers to trade (TBTs), which refer to any barrier to trade due to different countries' product standards. These can be as simple as the electric plugs and voltages used in the local market. The US, for example, uses 2-pin plugs and 120-volt electricity, while the UK uses 3-pin plugs and 240-volt electricity. This isn't an insurmountable problem; most modern appliances can operate with a voltage range from 110 to 240, and companies will make goods to fit the export market's electrical plugs. Similarly, most car companies make both left-hand drive and right-hand drive vehicles so they can sell to the UK, Commonwealth countries, Japan, and Hong Kong, as well as to Europe and the US.

- **Safety rules:** Countries require imported products to meet their safety standards and to gain approval from their domestic regulators before the imported goods can be sold in their market. Safety standards include sanitary and phytosanitary (SPS) regulations intended to protect human, animal, and plant life from imported diseases, toxins and other contaminants. Safety standards can be used to deliberately block imports; for example, the EU has recently lowered its maximum residue levels (MRL) for pesticides used to produce crops. This has had the effect of restricting trade with non-EU suppliers. The US has raised concerns about these MRL changes with the EU at the WTO in 2022, 2023, and again in 2024.

- **Environmental rules:** In 2024, the EU introduced a CBAM (as explained previously), a plastic packaging tax, and a deforestation regulation. The first two will increase the cost of imports and effectively work as tariffs, while the third will completely prevent trade in any goods that don't meet the regulation's requirements. The UK is proposing to introduce its own version of the CBAM on imported goods. While the US has an ozone-depleting chemical tax. All of these environmental regulations can potentially reduce trade; these are discussed in more detail below.

The USTR's Report on Foreign Trade Barriers was particularly concerned that the UK had remained aligned with the EU's precautionary principle approach to regulating agricultural chemicals and pesticides, "which often results in restrictions that do not appear to be science-based and that could result in further reductions of MRLs." The USTR gives an example: the UK notified the WTO committee on SPS measures to reduce the MRL for chlorpropham for fresh and frozen potatoes in line with a similar EU MRL decision.

However, since Brexit similar non-tariff trade barriers have been removed from UK regulations. For example, the UK has moved away from the EU in its attitude to gene-edited plants. The UK passed the Genetic Technology (Precision Breeding) Act in 2023 to simplify the process of authorising precision breeding technologies, and the secondary legislation needed to implement the new regulatory framework for 'precision bred plants' and for the food and feed produced from them.

This was laid in Parliament in February this year.[106] The secondary legislation was signed into law in May 2025. Full implementation of the regulations is expected by Autumn 2025, and gene-edited crops should reach UK supermarkets in the second half of 2026.[107] **This aligns US and UK regulations and could result in increased UK-US agri-food trade and attract US biotech investment in UK agricultural technology research**.

Environmental trade barriers

Most modern trade agreements include a chapter on the environment, as environmental regulations have become a significant cost to industry in countries with enforceable environmental regulations. Imported goods from countries that don't have enforceable environmental regulations or have less stringent regulations can undercut domestic production.

There is a case to be made that a trade agreement between the US and the UK could omit an environmental chapter, as both countries have established environmental rules. Although these rules differ, they haven't prevented trade between the two countries. Instead, it is the UK's environmental regulations and taxes that have led to an increase in imports of US LNG in recent years. UK imports from the US are expected to increase in the future because the UK's environmental regulations are driving the UK's chemical and plastics industry offshore, often to the US.

The UK's plastic packaging tax (PPT) also applies to imports and is set at £217.85 per tonne of packaging if it contains less than 30% recycled plastic,[108] while the US's Rewarding Efforts to Decrease Unrecycled Contaminants in Ecosystems (REDUCE) Act proposes to add up to 20c per pound (£353 per tonne) to virgin plastic resin used in single-use products, including imported goods. This regulation has yet to be passed into US law but if it is then plastic packaging will be roughly 50% more expensive for UK exports to the US than the reverse.

The UK is proposing to introduce a Carbon Border Adjustment Mechanism (CBAM) for imported steel, aluminium, ceramics, cement, glass, fertiliser, and hydrogen in 2027, while the US is also considering similar legislation with its Foreign Pollution Fee Act.[109] The US regulation is currently only in the committee stage but covers the same products as the UK's CBAM, as well as solar panels, batteries, and critical minerals. The UK-US EPD included a commitment to environmental policies and practices.

The UK CBAM proposal would charge the difference between the UK's quarterly average emissions tax and any emission tax paid in the country of production of the imported product, if it is lower. The UK CBAM calculates both the carbon dioxide produced in the production of an imported product and in the production of any inputs to the product, known as precursor goods. However, in the Renewed Agenda for European Union – United Kingdom Cooperation, Common

106 UK Parliament. (2025). *Draft Genetic Technology (Precision Breeding) Regulations 2025*. Available at: https://publications.parliament.uk/pa/ld5901/ldselect/ldsecleg/98/9804.htm (Accessed 8 July 2025).

107 Rothamsted Research. (2025). *Precision Breeding Regulations Signed into Law by UK Government*, 13 May. Available at: https://www.rothamsted.ac.uk/news/precision-breeding-regulations-signed-law-uk-government (Accessed 8 July 2025).

108 UK HM Revenue & Customs. (2023). *Changes to Plastic Packaging Tax rates from 1 April 2024*, 22 November. Available at: https://www.gov.uk/government/publications/changes-to-plastic-packaging-tax-rates-from-1-april-2024?form=MG0AV3 (Accessed 8 July 2025).

109 GovTrack. (2023). *Text of S. 3198 (118th): Foreign Pollution Fee Act of 2023*, 2 November. Available at: https://www.govtrack.us/congress/bills/118/s3198/text (Accessed 8 July 2025).

Understanding, paragraphs 35 to 45 recommend that the UK join the EU's Emission Trading Scheme so that any goods traded between the UK and the EU would avoid paying each other's CBAM. There are several problems with this. Most notably, it would benefit the EU much more than the UK. The EU's CBAM covers different goods, goods from industries that are important to the EU not the UK and the EU has a large trade surplus with the UK in the goods covered by the EU's CBAM. By weight, and therefore carbon emissions, the UK imported 200% more (non-scrap) steel, 220% more cement, 170% more (non-scrap) aluminium, 230% more Hydrogen and 350% more fertiliser from the EU than it exported to it in 2024.[110] The EU has a more industrial economy, and for this reason, there is also a significant price differential between the EU and UK ETS schemes. The UK's average carbon price in 2024 was £40.18, while the EU's average price was €68.19 (£58). **Joining the EU's ETS scheme would require all UK companies to pay the EU's higher emission price, regardless of whether they exported to the EU or not.**

The EU, and possibly the UK if it joins the EU scheme, also intends to include international maritime and aviation goods transport in its CBAM calculations. This would also benefit EU exports to the UK, which are generally transported by road or rail, whereas goods imported from other destinations are typically transported by ship or air freight. Joining the EU's ETS and CBAM schemes would reduce trade in steel and aluminium, as agreed in the UK-US EPD, by making steel and aluminium imported from the US more expensive. Joining the EU's ETS and CBAM scheme would increase costs for UK firms, accelerate British deindustrialisation, and make imported goods from the US more expensive.

Other costs of trade

Apart from tariffs, the other costs involved in goods trade are known as Costs, Insurance and Freight (*cif*). The introduction of larger and larger container ships has greatly lowered the cost of freight, but this remains the largest cost for goods trade unless the product is exceptionally valuable, requiring very high insurance. Costs cover import duties but may also include transit costs if cargo is going through the Panama or Suez Canal.

European countries, including the UK, are highly dependent on trade via the Suez Canal, with estimates suggesting that between 30% and 40% of European trade transits the canal.[111] Since the Houthi rebels began attacking ships in the canal, thirteen major shipping operators, including the world's largest container lines, have announced that they are suspending voyages through the Red Sea and Suez Canal.[112] Instead, they have rerouted around the Cape of Good Hope, which adds time and costs, including much higher insurance costs, to trade. The US-led coalition has conducted retaliatory strikes against the Houthi missiles and drones, while the Chinese navy has started to escort its container ships through the Red Sea. While the Suez Canal is an important route for Chinese exports to Europe, only about 3% of US trade passes through it.[113]

However, approximately 75% of the cargo that transits through the Panama Canal is either going

110 Calculations based on ITC data from five different HS chapters and for both imports and exports.

111 Allianz Trade. (2024). *Red Sea Crisis: Economic Impact*. Available at: https://www.allianz-trade.com/content/dam/onemarketing/aztrade/allianz-trade_com/en_BE/belgium/01-documents/2024_01_12_red-sea-crisis.pdf (Accessed 1 Jul. 2025).

112 Helwa, R., Al-Riffai, P. (2025). 'A lifeline under threat: Why the Suez Canal's security matters for the world', *Atlantic Council*, 20 March. Available at: https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/a-lifeline-under-threat-why-the-suez-canals-security-matters-for-the-world/ (Accessed 8 July 2025).

113 Gray, F. (2025). 'What Team Trump's group chat error really revealed', *The Spectator*, 24 March. Available at: https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/a-lifeline-under-threat-why-the-suez-canals-security-matters-for-the-world/ (Accessed 8 July 2025).

to or coming from the US[114], making the US the largest beneficiary of the route. The Panamanians have reduced the number of ships allowed to pass through the canal due to a drought in 2023-24 caused by El Niño, which has lowered the water level in Gatun Lake, the source of water for the canal's locks. The restriction on the number of ships and the introduction of a bidding system for canal usage have increased prices for US traders.

As mentioned in Section One of this paper, the UK also adds import VAT at the same rate as applied to domestically produced goods sold in the UK. Most goods have a 20% VAT applied to their price, while some have a reduced rate of 5%. Unprocessed foods, children's clothing, books, printed materials, art, antiques, and medical supplies are mostly zero-rated. Import VAT is charged on the total value of the imported goods, including shipping costs, insurance, and duties. VAT-registered businesses can reclaim import VAT if they resell the imported goods. Some UK imports are also charged excise duty nationally, and several types of goods now have environmental duties.

A considerable proportion of the UK's imports from the US are fuel-based (23% in 2024): crude oil and refined oil, LNG, ethanol for use as a petrol additive, and wood pellets for use in biomass electricity generation.[115] The UK does not charge VAT on imported LNG (*HS 271111*), the main gaseous hydrocarbon imported from the US, but it does charge a climate change levy (CCL) of £3.175/100kg. Propane (*HS 271112*), the second largest gaseous hydrocarbon imported from the US, is charged import VAT of 20% as well as a CCL of £2.175/100kg.

Comparatively, the US adds a merchandise processing fee (MPF) at a rate of 0.3463% of the shipping value, with a minimum fee of $32.71 and a maximum fee of $634.62, as well as a harbour maintenance fee (HMF) of 0.125% of the cargo value. This is a federal charge that applies to all shipments entering US seaports and is collected by US Customs and Border Protection.

The importer generally pays tariffs, import VAT, CCL, MPF, and HMF.[116] Although some goods can be imported delivered duty paid (DDP) where the seller assumes the responsibility, risk and costs associated with the delivery of goods to a specific destination, these costs will be included in the price, so they are also eventually paid by the importer and passed on to the customer.

Subsidies: another trade barrier

A trade agreement between the US and UK will have to address any subsidies given to their domestic industries by either government.[117] Subsidies are a market distortion, as they make goods produced for domestic markets cheaper than they would otherwise be and thus make it harder for imported goods to compete. Both the US and British Governments currently subsidise EVs and EV battery production, as well as agriculture, solar panels, semiconductors, and pharmaceuticals, among other industries. If a company receives subsidies from its government

114 Canal de Panamá. (2025). *Transit Statistics Annual Reports*. Available at: https://pancanal.com/en/statistics/ (Accessed 8 July 2025).

115 Calculation made using ITC data for imports of *HS 2709*, *HS2710*, *HS 2711*, (crude oil, refined oil and gas), *HS 2207* (ethanol) and *HS 4401* (fuel woods) (ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1 (Accessed 9 July 2025)).

116 UK Department for Business and Trade. (2023). *Tariffs on goods imported into the UK*, 4 April. Available at: https://www.gov.uk/guidance/tariffs-on-goods-imported-into-the-uk?form=MG0AV3 (Accessed 8 July 2025).

117 IMF, OECD, World Bank, and WTO. (2022). *Subsidies, Trade and International Cooperation 2022*. Available at: https://www.wto.org/english/news_e/news22_e/igo_22apr22_e.pdf (Accessed 8 July 2025).

that are considered to have increased its exports to another country, the importing country can impose additional countervailing duties on the import price. A country's countervailing and anti-dumping tariffs are generally already published.

EV subsidies

The UK and the US subsidise EV production both directly through subsidies to producers and tax deductions to consumers, and indirectly through consumer mandates to eliminate the sale of ICE vehicles by a certain date. The US government has offered incentives for EV production, including tax credits for both manufacturers and consumers. The Inflation Reduction Act (IRA) includes considerable subsidies for EV battery production. Similarly, the British Government has introduced loan guarantees and direct investments to bolster EV production. For example, Jaguar Land Rover received a £500 million loan guarantee from UK Export Finance to support its EV initiatives.[118]

In the UK, EVs benefit from plug-in vehicle grants ranging from £2,500 for small vans to £6,000 for taxis. Additionally, EV infrastructure grants cover 75% of charge point installation costs, up to £30,000 for residential car parks. Furthermore, reduced benefit-in-kind tax rates are currently available, at just 3%. In the 2024 Spring Statement, the Conservative Chancellor of the Exchequer, Jeremy Hunt, announced over £2 billion in subsidies over five years from 2025 to encourage investment in the manufacturing and development of zero-emission vehicles, their batteries and supply chain.[119] In January this year, the Labour government announced a $50 million investment deal with the Japanese Automatic Transmission Company (JATCO) and Nissan to create a new EV powertrain manufacturing site in Sunderland.[120]

The UK also has a reverse subsidy by fining car manufacturers if they don't sell a certain proportion of EVs each year. In 2025, the mandate requires 28% of new car sales to be EVs, and manufacturers that don't reach this target are fined £12,000 for every additional ICE car sold and £15,000 for each ICE van. The British Government had already spent over £2 billion by March 2024 to accelerate the uptake of zero-emission vehicles, including reducing the upfront cost of electric vehicles and supporting the roll-out of charging infrastructure.[121] The British Government has retained the previous government's deadline to stop petrol and diesel vehicle sales by 2030, but will now allow hybrid vehicles and ICE vans to be sold until 2035 and has exempted small volume producers such as Aston Martin and McLaren from the phase out.[122]

The US EV subsidies include up to $7,500 consumer tax credits for new EVs that meet domestic assembly and battery sourcing requirements of 60% in 2025. US Section 45X Production Tax credits subsidise US based battery components, critical minerals and electrode materials and

118 UK Export Finance. (2022). *£500 million loan guarantee supports Jaguar Land Rover's electric vehicle plans*, 31 January. Available at: https://www.gov.uk/government/news/500-million-loan-guarantee-supports-jaguar-land-rovers-electric-vehicle-plans (Accessed 8 July 2025).

119 UK HM Treasury. (2024) *Spring Budget 2024*. Available at: https://assets.publishing.service.gov.uk/media/65e8578eb559930011ade2cb/E03057752_HMT_Spring_Budget_Mar_24_Web_Accessible__2_.pdf (Accessed: 1 July 2025).

120 UK Department for Business and Trade. (2025). *Massive boost for UK motor industry as £50 million investment deal secured*, 16 January. Available at: https://www.gov.uk/government/news/massive-boost-for-uk-motor-industry-as-50-million-investment-deal-secured (Accessed 8 July 2025).

121 UK HM Treasury. (2024). *£360 million to boost British manufacturing and R&D*, 4 March. Available at: https://www.gov.uk/government/news/360-million-to-boost-british-manufacturing-and-rd (Accessed 8 July 2025).

122 UK Department for Transport. (2025). *Backing British business: Prime Minister unveils plan to support carmarkers*, 6 April. Available at: https://www.gov.uk/government/news/backing-british-business-prime-minister-unveils-plan-to-support-carmakers (Accessed 8 July 2025).

Section 48C investment tax credit for up to 30% of the capital costs for building EV and battery manufacturing facilities.[123] However, these subsidies were part of the Inflation Reduction Act. The One Big Beautiful Bill will remove the EV tax credits on 30th September 2025. There is no federal mandate forcing US consumers to buy EVs and President Trump has overturned California's mandate, adopted by 14 other states, to phase out ICE cars by 2035, removing a trade barrier for UK ICE car manufacturers exporting to the US, while US EV manufacturers still have a mandated market for EVs in the UK.

However, a US and UK trade agreement will need to address any imported parts from third-party countries that are subsidised by the exporting country's government. Although the US now produces 60-65% of its EV battery cells domestically, the UK only produces about 10% of its EV batteries domestically. Both the US and UK EV manufacturers are reliant on China for batteries and battery components.

China dominates EV battery production, producing 77 per cent of the world's EV batteries.[124] Its leading battery manufacturer, Contemporary Amperex Technology Co. (CATL), supplied approximately 37 percent of the global lithium-ion battery market in 2022, while six out of the world's top ten EV battery companies in 2022 were Chinese. The UK and US may disagree with China's direct battery company subsidies, tax exemptions for battery makers, R&D grants, and employment regulations and may suspect it of dumping. However, as China has cornered the market in EV battery production, battery cell production, and the refining of the required minerals, US and UK car manufacturers will have little choice in battery suppliers or key component suppliers if they are to continue making EVs.

Agricultural subsidies

One issue that blocked the Transatlantic Trade and Investment Partnership (TTIP) negotiations between the US and EU from 2010 to 2014 was agricultural subsidies. Both parties subsidise their agriculture and use quotas and tariffs to protect their food industries from competition.

The UK has largely eliminated its land-based agricultural subsidies, which were inherited from the EU. UK farmers are no longer given the EU's Basic Farm Income subsidy, which was based on the number of hectares of productive farmland they own. However, that doesn't mean that UK taxpayers are contributing less to UK farmers. Now, UK agricultural subsidies are focused on non-farming activities deemed beneficial for the environment, such as planting trees, cultivating wildflowers and wild bird seed mixes, and restoring bogs. The British Government has recently stopped accepting additional applications for these subsidies, as they have reached their budgetary limit of £5 billion over two years.[125]

The UK's environmental farm subsidies should not concern US trade negotiators, as they diminish UK agricultural production. This, in turn, reduces the UK's capacity to export and increases the UK's reliance on imported food, which will be beneficial for US agrifood exporters.

123 Internal Revenue Service. (n.d.). *Credits for new clean vehicles purchased in 2023 or after*. Available at: https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after (Accessed 8 July 2025).

124 Ezell, S. (2024). 'How Innovative Is China in the Electric Vehicle and Battery Industries?', *Information Technology & Information Foundation*, 29 July. Available at: https://itif.org/publications/2024/07/29/how-innovative-is-china-in-the-electric-vehicle-and-battery-industries/ (Accessed 8 July 2025).

125 UK Department for Environment, Food & Rural Affairs (2025). *Update on the farming budget*, 12 March. Available at: https://defrafarming.blog.gov.uk/2025/03/12/update-on-the-farming-budget/ (Accessed 8 July 2025).

The British Government's current policy of subsidising UK farmers for non-food projects will reduce the UK's production-to-supply ratio and make a trade deal with the US, a major agricultural exporter, more appealing to UK consumers, if not UK farmers. The UK's primary arable production is wheat, barley, and oats; it also produces sugar beet and rapeseed, although both have had lower yields in recent years due to the UK's phase-out of the use of neonicotinoid pesticides.[126] Its wheat is predominantly green wheat, which is used in cattle feed rather than for human consumption. The UK is highly reliant on imported fruit, nuts, and vegetables to satisfy consumer demand. The US is a major supplier of these products, despite the UK's high agricultural tariffs.

The US federal government also subsidises agriculture by providing financial assistance to farmers via direct payments, crop insurance, and loans. Additionally, it implements measures to control commodity prices. In 2019, US farms received $22.6 billion in government payments; however, in 2020, the subsidies rose to $50 billion due to international trade disruptions, the COVID pandemic, and natural disasters. Agricultural support remains higher than in the pre-COVID years, with President Biden signing a bill in December 2024 that included $10 billion in economic assistance for farmers to address low commodity prices and increased production costs,[127] along with $1.17 billion in crop disaster assistance to mitigate drought and wildfire losses.[128] Row-crop farmers were eligible for up to $250,000 in economic assistance payments. Payments could range from $19 an acre for wheat to $77 an acre for peanuts, according to preliminary estimates. Payments for corn are expected to be $43 an acre and soybeans $28 an acre. The stop-gap spending bill included another extension of the 2018 farm law, which expired in autumn 2023. Along with the economic assistance payments, the bill included $20.8 billion in disaster assistance for agriculture.

The largest US subsidies on a crop-specific basis are allocated to corn, which is primarily imported by the UK for animal feed.[129] The next most heavily subsidised US crop is soybeans, also mainly imported by the UK for animal feed, principally because the UK does not have the climate to grow corn or soybeans commercially. Conversely, the US subsidised crop that could rival UK production is sugar. However, US sugar is primarily consumed domestically, it exports very little cane or beet sugar and most of that goes to Mexico.[130] Likewise, the US also subsidises wheat and livestock, which would compete with UK products. However, these products receive significantly smaller US subsidies, which are spread over a greater volume of produce.

The Trump Administration is currently subsidising US farmers to compensate for lost soybean, corn, and pork exports to China due to retaliatory tariffs. **A trade deal with the UK, a large importer of pork, soybeans, and corn, would provide US farmers with a new market and reduce the need for subsidies.**

126 UK Department for Environment, Food & Rural Affairs. (2025). *Complete ban on bee killing pesticides moves forward*, 21 December. Available at: https://www.gov.uk/government/news/complete-ban-on-bee-killing-pesticides-moves-forward?form=MG0AV3 (Accessed 8 July 2025).

127 FERN's Ag Insider. (2024). 'Farmers to Get $10 Billion in Economic Assistance', *Successful Farming*, 23 December. Available at: https://www.agriculture.com/farmers-to-get-usd10-billion-in-economic-assistance-8765678 (Accessed 8 July 2025).

128 United States Department of Agriculture. (2023). *USDA to Begin Issuing $1.75 Billion to Agricultural Producers Through Critical Emergency Relief Programs*, 27 September 2023. Available at: https://www.usda.gov/about-usda/news/press-releases/2023/09/27/usda-begin-issuing-175-billion-agricultural-producers-through-critical-emergency-relief-programs (Accessed 8 July 2025).

129 USA Facts. (2025). *Federal farm subsidies: What the data says*, 5 October 2023. Available at: https://usafacts.org/articles/federal-farm-subsidies-what-data-says/?form=MG0AV3 (Accessed 8 July 2025).

130 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c842%7c%7c%7c%7c1701%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c2%7c2%7c1%7c1https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c842%7c%7c%7c%7c1701%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c2%7c2%7c1%7c1

Semiconductor subsidies

The US is also subsidising the production of semiconductors with funding worth $52 billion from the CHIPS and Science Act, which has resulted in sixteen new semiconductor manufacturing facilities and the expansion of several existing facilities.[131] However, the UK should not view this as a market distortion but rather as a potential secure supplier of key components that are necessary for the UK's largest manufacturing sectors. This is covered in more detail later in this paper.

Pharmaceutical subsidies

The UK subsidises pharmaceutical R&D and has granted £520 million through the Life Sciences Innovative Manufacturing Fund to help pharmaceutical companies expand their manufacturing facilities in the UK.[132] The US National Institutes of Health also provides funding for research grants to support drug development.

Environmental subsidies and aerospace subsidies

The former Conservative Government granted £200 million in joint government and industry funding for aerospace R&D projects for the development of energy-efficient and zero-carbon aircraft technology. The British Government has also allocated £960 million to the Green Industries Growth Accelerator (GIGA) fund. This initiative supports the development of hydrogen; carbon capture, usage and storage (CCUS); bioenergy; direct air capture and greenhouse gas removal; floating offshore wind electricity generation; advanced modular reactors; and other environmental technologies.[133]

Summary

This chapter has outlined the robust yet complex UK-US trade relationship as it stands, highlighting the US as the UK's top trading partner, buying 16% of UK goods exports and 27% of service exports in 2024. However, the US's recent 10% IEEPA tariffs and Section 232 tariffs pose significant challenges to UK exporters, particularly for homogenous goods, and have the potential to cause UK firms to relocate production to the US. Similarly, US agricultural goods, pharmaceuticals, and medical equipment face significant hurdles from protective UK public sentiment about the NHS and UK farmers. US Digital trade is hindered by the UK's GDPR, DST on revenue, and the Online Safety Act. At the same time, both countries apply non-tariff barriers, such as quotas, product standards, subsidies, and environmental regulations, which limit trade. A comprehensive UK-US trade agreement could mitigate these issues, enhancing market access for goods and services and improving consumer choice and market competition.

131 US Department of Commerce. (2024). *Two Years Later: Funding from CHIPS and Science Act Creating Quality Jobs, Growing Local Economies, and Bringing Semiconductor Manufacturing Back to America*, 9 August. Available at: https://www.commerce.gov/news/blog/2024/08/two-years-later-funding-chips-and-science-act-creating-quality-jobs-growing-local (Accessed 8 July 2025).

132 HM UK Treasury. *£360 million to boost British manufacturing and R&D.*

133 UK Department for Energy Security and Net Zero. (2021). *Net Zero Innovation Portfolio*, 3 March. Available at: https://www.gov.uk/government/collections/net-zero-innovation-portfolio (Accessed 8 July 2025).

2. The future possibilities for UK-US trade

Main points

- ***Tariff elimination and trade diversification:*** *A UK-US trade agreement eliminating tariffs and quotas could significantly increase and diversify trade in goods like clothing, footwear, luxury goods, vehicles, and agricultural products, making use of mutual recognition of standards and comparable economic conditions.*

- ***Supply chain security and services:*** *A trade deal could enhance supply chain security for critical components like semiconductors, steel, and pharmaceuticals, while mutual recognition of regulatory standards could facilitate service trade.*

There are numerous products that the US and UK could trade but currently do not, owing to existing trade barriers. If all US and UK tariffs were removed, trade between the two countries would not only increase but also potentially diversify.

It is possible for the US and UK to negotiate a trade deal immediately removing all tariffs and quotas imposed on each other's goods, as well as removing regulatory barriers and adopting mutual recognition of product standards. The US and the UK find themselves in a similar part of the economic cycle: they produce comparable high-value goods, their consumers have similar tastes, and they are already significant importers of each other's goods and services. UK wages and workers' rights do not undermine those of US workers. For example, the average hourly wage for automobile production workers in the UK is approximately £14 ($17) per hour, comparable to the requirements for auto workers in the USMCA of a minimum of $16 per hour.

The US and UK should also take this opportunity to redesign the trade agreement's ROO so that they also cover the two countries' intellectual inputs in product development, design, and brand management. This will be discussed in more detail in Recommendation Two of this paper.

Goods

Clothing, footwear, trucks, and agricultural products are the most obvious areas where the US and UK could increase trade if they removed their tariffs and quotas. Neither the UK nor the US poses a threat to the manufacturing or food industries of the other, as shown in the previous section. A trade agreement would allow the US and UK to drop their tariffs on clothing and footwear, as they are likely to be each other's largest customers. Most of their clothing brands manufacture their goods in Asia, while the design, marketing, and distribution processes remain in the US and the UK and should be included in the RVC.

Before the recent tariff increases, the US imposed tariffs ranging from zero to 32% on clothing and from zero to 48% on footwear, while the UK imposes a 12% tariff on any imported clothing and up to 17% on imported footwear. Both countries still make some clothing domestically, but this tends to be for small brands or limited-edition products that are generally not exported. Many of the UK's luxury goods are still made in the UK and are covered in the next section.

The US IEEPA tariffs are unlikely to encourage US clothing manufacturers to onshore their production, as the difference in production costs between developing and developed countries is much larger than the tariffs. Instead, the high tariffs imposed on Chinese clothing manufacturers encouraged many manufacturers to relocate their production to Cambodia, Bangladesh, and Vietnam, countries offering even lower wages and weaker currencies to counterbalance any increase in US tariffs on manufactured goods. The US is applying IEEPA tariffs of 36% on goods from Cambodia, 35% on goods from Bangladesh, while Vietnam has agreed a trade deal with the US which will apply 20% IEEPA tariffs on Vietnamese goods. However, even with the 2024 levels of US tariffs, 97% of clothing sold in the US was imported.[134] The IEEPA tariffs are unlikely to bring manufacturing back to the US; however, the country of production could move closer from Asia to Central America.

Similarly, the UK imposes tariffs of 12% on imported clothing and up to 17% on imported shoes. Yet, UK brands have continued to manufacture their products in countries such as Bangladesh, Turkey, India, Pakistan, Vietnam, or China. The World Bank estimates that 80% of clothing sold in the UK is imported.[135] The UK is now a party to the CPTPP, so clothing and shoes made in Vietnam can be imported tariff-free, as can clothing made in Bangladesh under the UK's Developing Countries Trading Scheme.

A trade agreement between the US and UK that includes the value of design and brand management in its calculation of RVC for clothing and footwear could make more products designed in the US or UK eligible to qualify for tariff-free trade under a comprehensive trade agreement. Allowing developed nations to account for the design and brand inputs in clothing would enable clothing companies to continue utilising truly developing nations for manufacturing without the value being tariffed, as design and brand creation in the US or UK would account for a greater proportion of the RVC, effectively making the entire product tariff-free. This enables developing countries whose economies have been built around the textile industry to continue to make clothing and shoes for US and UK companies.

Without changing the way in which we calculate RVC there will be pressure to relocate production back to developed nations, where mechanisation and robotics will soon match the efficiency of semi-manual production in developing nations. But onshoring this production will not achieve the desirable outcome of aiding nations in their development. Employment in developing nations reduces the desire to immigrate to developed nations. The WTO has a special agreement on textiles and clothing aimed at assisting developing nations because the textile industry has historically been the first step towards development. This was true for China in the 1990s, and the textile industry has now shifted to Bangladesh and Vietnam. Bangladesh is

134 All American. (2025). *State of American Clothing Manufacturing Report*. Available at: https://allamerican.org/research/clothing-manufacturing-report/ (Accessed 9 July 2025).

135 World Integrated Trade Solution. (n.d.). *United Kingdom Textiles and Clothing Imports by country in US$ Thousand 2022*. Available at: https://wits.worldbank.org/CountryProfile/en/Country/GBR/Year/LTST/TradeFlow/Import/Partner/by-country/Product/50-63_TextCloth (Accessed 8 July 2025).

scheduled to graduate from the least developed country (LDC) status in November 2026, with a GDP per capita of $2,529, largely due to its extensive clothing manufacturing industry, which supplies goods to clothing labels in the UK, US, Japan, and Europe.[136]

Luxury goods trade

An extensive study of UK luxury goods by McKinsey in 2016 found that, for most British luxury brands, the US was their largest international market.[137] When asked about future growth, most respondents indicated that the US would be the market where they would place the most emphasis. The US adds tariffs to most luxury goods. UK luxury goods cover apparel (US tariff range 14.4% to 37.7%), footwear (10% to 47.5%), fine wines and spirits (10% to 13%), jewellery (15.2% to 13.5%), watches (14.2% to 18.8%), accessories (up to 30%), beauty and personal care (10%), silver tableware (12.7% to 17.9%), porcelain tableware (16% to 36%), crystal glassware (13% to 25%), yachts (11.5% to 12.4%), and automotive sectors (10%). A trade agreement that removed these tariffs would help increase exports of UK luxury goods and, in some cases, revive these industries. The McKinsey report concludes that the most significant drivers of growth in the luxury goods sector are international expansion and investment in marketing and public relations.

The US also makes luxury goods that could increase exports to the UK, not just in clothing, footwear, and jewellery, but also in luxury furniture, textiles, and appliances brands as Sub-Zero and Wolf, Viking, and Thermador.

Vehicle and light trucks trade

Under a tariff-free trade deal, UK vehicle and light truck imports from the US are likely to increase, especially pickup trucks with a crew cab (two rows of passenger seats in the cabin), which would compete with vans used by British tradesmen that cannot transport staff as well as equipment. UK Light truck imports (*HS 870421*) were worth $8 billion in 2024, a third of which were imported from Turkey, with most of the balance imported from the EU.[138]

Pharmaceuticals

Although the UK and US trade in pharmaceuticals is already large, it could be improved with mutual recognition of approval processes. US pharmaceuticals must be approved by the US Food and Drug Administration (US FDA), and UK pharmaceuticals must be approved by the UK Medicines and Healthcare Products Regulatory Agency (MHRA).

The International Recognition Procedure enables the MHRA to fast-track approvals for pharmaceuticals already authorised by trusted regulators, such as the US FDA. Any pharmaceutical approved by the US FDA within the last two years should receive approval by the MHRA within 60 days, while older pharmaceuticals' approval may take up to 110 days.

136 United Nations LDC Portal. (n.d.). *Bangladesh graduation status*. Available at: https://www.un.org/ldcportal/content/bangladesh-graduation-status (Accessed 8 July 2025).

137 Berg, A., Brantberg, L., Zaharieva, L. (2016). 'The British luxury market: Growing sales from £5 million to £500 million', *McKinsey & Company*. Available at: https://www.mckinsey.com/~/media/McKinsey/Locations/Europe%20and%20Middle%20East/United%20Kingdom/Our%20Insights/The%20British%20luxury%20market%20Growing%20sales%20from%205%20million%20to%20500%20million/The%20British%20luxury%20market%20Growing%20sales%20from%205%20million%20to%20500%20million.pdf

138 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c826%7c%7c%7c%7c8704%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 (Accessed 9 July 2025).

However, UK MHRA-approved drugs require full approval by the US FDA before they can be sold in the US. This involves a full regulatory dossier and a clinical data review to evaluate safety, efficacy, and manufacturing standards. The FDA may require new clinical trials or labelling changes to meet US regulations, although MHRA-approved drugs may qualify for accelerated FDA approval if they address an unmet medical need.

In a comprehensive trade agreement, the UK should request that the US FDA establish a formal fast-track approval process for UK MHRA-approved medicines, as Australia, Canada, Singapore, and Switzerland have done.[139]

The US FDA and the UK MHRA already have a MRA for good manufacturing practices,[140] which streamlines facility inspections for both human and veterinary medicines. The FDA and the UK have considered expanding the scope of the MRA to include vaccines and plasma-derived pharmaceuticals for human use. They have decided to reassess the issue in July 2025, based on further evaluation.

Food and agriculture

Food and agriculture could benefit the most from a UK-US trade agreement. However, UK agricultural companies need to target the US market with better marketing and PR if they are to sell more UK products there. For example, the US had very low tariffs on sheep meat, ranging from 0.7c per kilogram to 2.8c per kilogram, yet the UK exported only 48 tonnes of sheep or goat meat to the US in 2024, worth $547,000.[141] The US imported a total of 165,000 tonnes of sheep or goat meat in 2024, worth $1.5 billion[142], so there is a market for lamb in the US; the UK must simply to learn how to tap into it. Although the new US tariff rate is 10%, it also applies to Australian and New Zealand lamb, which are currently the largest suppliers of lamb to the US.

Measured in tonnes, the UK imports 85% of the fruit it consumes, almost half of its vegetables, and 40% of its potatoes.[143] The UK also imports 20% of its milling wheat, 40% of its rapeseed oil, 45% of its sugar, and all of its soy and corn requirements. **The US could supply the UK with some or all of these products.**

The UK has not been self-sufficient in food production for 200 years. Its production-to-supply ratio, calculated as the farmgate value of raw food production divided by the value of raw food for human consumption, is currently 62% for all food and only 75% for indigenous foods[144] (meaning

139 UK Medicines and Healthcare products Regulatory Agency. (2023). *MHRA announces new recognition routes to facilitate safe access to new medicines with seven international partners*, 26 May. Available at: https://www.gov.uk/government/news/mhra-announces-new-recognition-routes-to-facilitate-safe-access-to-new-medicines-with-seven-international-partners (Accessed 8 July 2025).

140 United States Food & Drug Administration. (2023). *United Kingdom (UK) Mutual Recognition Agreement*. Available at: https://www.fda.gov/international-programs/international-arrangements/united-kingdom-uk-mutual-recognition-agreement (Accessed 8 July 2025).

141 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c02%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c2%7c1%7c1 (Accessed 9 July 2025).

142 ITC. *Trade Map*. Available at: https://www.trademap.org/Product_SelCountry_TS.aspx?nvpm=1%7c842%7c%7c%7c%7c02%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c1%7c2%7c1%7c1 (Accessed 9 July 2025).

143 UK Department for Environment, Food & Rural Affairs. (2023). 'Chapter 7: Crops' in *Agriculture in the United Kingdom 2023*. Available at: https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2023 (Accessed 8 July 2025).

144 UK Department for the Environment, Food & Rural Affairs. (2023). 'Chapter 14: The food chain' in *Agriculture in the United Kingdom*. Available at: https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2023 (Accessed 8 July 2025).

those that can be grown in the UK).[145] **The British Government's current policy of subsidising UK farmers to pursue activities that do not produce food will increase the UK's reliance on imported food and make a trade deal with the US, a major agricultural exporter, more appealing to UK consumers.**

The UK's main agrarian products are wheat, barley, oats, and sugar beet, but it cannot cultivate corn, soy, or most varieties of fruit and nuts.

The US produces 30% of the world's corn but was only the UK's sixth largest supplier in 2024, behind Canada, Poland, France, Ireland, and Ukraine. The US is the world's second-largest soybean producer and the UK's second-largest supplier of soybeans, behind Brazil. However, the UK imports almost no soybean oil from the US, despite the US being the world's second-largest producer. The UK's tariffs on soybean oil range from 2% to 8%, and soybean oil imported from the US had a 5.1% average applied tariff in 2024. Instead, the UK imported 80% of its 180,000 tonnes of soybean oil from the Netherlands tariff-free even though the Netherlands doesn't produce soybeans.[146]

In the trade of agricultural products, the US will have to counter the extensive negative sentiment in the UK and EU about US food standards. Without such marketing, UK consumer concerns regarding the US practice of antimicrobial treatment of raw poultry are likely to limit imports, even though under any trade agreement, goods must meet the standards of the importing country, a fact reiterated in the UK-US EPD. In view of this and other domestic considerations, the US Secretary of Health and Human Services is presently reviewing US food standards.[147]

However, fear of pathogen reduction treatments should not be used as an excuse to block a trade deal. First, pathogen reduction washes are also employed in the UK, most notably for prepared salad leaves. Second, the American cleaning process is aimed at protecting public health and is mandated by the US government[148], it does not reflect the treatment of the chicken while it was alive even though UK activists claim that their concern is for animal welfare. Third, campylobacter from chicken is the most common form of food poisoning in the UK, with 280,000 cases every year.[149] The UK has never justified why it doesn't also use pathogen reduction treatments for chicken meat apart from retaining this custom as a trade barrier.

Plastics and chemicals

A free trade agreement between the US and UK is unlikely to prevent the UK's remaining petrochemical and plastic companies moving to the US to benefit from plentiful hydrocarbon-based inputs and cheaper energy. However, a trade agreement would make it cheaper for UK consumers to import these goods from the US. The UK currently applies average tariffs of 4% on

145 UK Department for Environment, Food & Rural Affairs. (2023). *United Kingdom Food Security Report 2024: Theme 2: UK Food Supply Sources*,11 December. Available at: https://www.gov.uk/government/statistics/united-kingdom-food-security-report-2024/united-kingdom-food-security-report-2024-theme-2-uk-food-supply-sources (Accessed 8 July 2025).

146 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c826%7c%7c%7c%7c1507%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 (Accessed 9 July 2025).

147 United States Department of Health and Human Services. (2025). *FDA Advances Robert, Transparent Post-Market Chemical Review Program to Keep Food Supply Safe and Healthy*, May 15. Available at: https://www.hhs.gov/press-room/fda-review-chemicals-food-supply.html (Accessed 1 July 2025).

148 United States Department of Agriculture. (1996). *Pathogen Reduction: Hazard Analysis and Critical Control Point Systems, No.93-016F*. Available at: https://www.fsis.usda.gov/policy/federal-register-rulemaking/federal-register-rules/pathogen-reduction-hazard-analysis-and?form=MG0AV3&form=MG0AV3 (Accessed 8 July 2025).

149 Reding M. (2025). 'What is Campylobacter?', *CPD Online College*, 15 January. Available at: https://cpdonline.co.uk/knowledge-base/food-hygiene/what-is-campylobacter/ (Accessed 8 July 2025).

organic chemicals, 5% on other chemicals, and 6% on plastics imported from the US.

Tariff elimination

In the UK-Australia FTA and the UK-New Zealand FTA, the UK removed all tariffs and quotas on all imported manufactured goods immediately but phased out tariffs and increased quotas for many agricultural products over four to eight years, with the exception of beef and sheep meat, which will take 15 years (Australia, beef) and 16 years (New Zealand, sheep meat) to be eliminated. However, New Zealand eliminated all tariffs and quotas on UK goods immediately when the agreement came into effect, while Australia removed tariffs and quotas on all but two UK products immediately after the agreement came into effect. Neither country perceives free trade with the UK as a threat to their agriculture or industries; rather, they view free trade as an opportunity for their industries and a benefit to their consumers. **It would be hoped that the UK and the US could follow New Zealand's example and eliminate all tariffs and quotas on each other's goods immediately in a UK-US FTA.**

De minimis trade

Similarly, US and UK digital trade should establish an equivalent minimum threshold for digital product fulfilment to encourage small and medium-sized enterprises (SMEs) to use the trade agreement. The US allows goods valued up to $800 (£630) to be imported without paying any customs duties or import taxes. Currently, the US has removed its *de minimis* rules for goods imported from China and Hong Kong, but not from other countries. The import fee is either 30% of the value or $50 per item.[150] The UK has a similar exemption.[151] However, the UK's *de minimis* threshold is only £135 ($170), under which no customs duty is charged, while the import VAT threshold is only £39 ($50). *De minimis* rules are designed to encourage trade by SMEs, particularly in e-commerce and digital marketplace platforms, as they enable direct producer-to-customer fulfilment. A UK-US trade agreement should agree on a mutual level of *de minimis* trade to encourage US and UK SME trade, provided that the UK also agrees to prevent transshipments of goods from China into the US.

Services

While service exports are not subject to tariffs and quotas, they remain subject to regulatory restrictions and some additional taxes. Increasing US and UK service trade will require mutual recognition of standards and authorities or the acknowledgement of the equivalence of regulatory outcomes. This was already the case in many financial services when the UK was a member of the EU, recognising the equivalence of US regulations and the authority and expertise of US regulators, without either country having identical regulations.

Since that time, the EU introduced the General Data Protection Regulation (GDPR), and the UK has adopted a similar system. This has made some aspects of service trade more difficult, although the UK has established a data bridge between some US and UK industries. However,

150 The White House. (2025). *Fact Sheet: President Donald J. Trump Closes De Minimis Exemptions to Combat China's Role in America's Synthetic Opioid Crisis – The White House*, 2 April 2025. Available at: https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-closes-de-minimis-exemptions-to-combat-chinas-role-in-americas-synthetic-opioid-crisis/ (Accessed 8 July 2025).

151 UK Government. (n.d.). *Tax and customs for goods sent from abroad.* Available at: https://www.gov.uk/goods-sent-from-abroad/tax-and-duty?form=MG0AV3 (Accessed 8 July 2025).

companies involved in financial services, banking, insurance, and telecommunication services[152] have been excluded from using the data bridge between the UK and the US, established in October 2023. The data bridge allows UK companies to transfer personal data to US organisations, provided the US organisation has been certified to the UK extension and appears on the Data Privacy Framework (DPF) list. However, **this data bridge is only applicable to organisations subject to the jurisdiction of the US Federal Trade Commission or the US Department of Transportation. This non-tariff barrier could be overcome by extending the remit of the data bridge** to US organisations regulated by the Securities and Exchange Commission (SEC), the National Association of Insurance Commissioners (NAIC), or the Federal Reserve System. Alternatively, **the UK might prefer to move away from the GDPR, created while the UK was part of the EU but incorporated into UK law after the UK left the EU as UK GDPR**.[153] The costs of complying with UK GDPR are estimated to have reduced the profits of SME tech firms by up to 8 percent and a 2 percent reduction in sales.[154]

The UK should remove its DST and limit the scope of its Online Safety Act in order to agree a US trade agreement. The amount raised by this tax is much less than predicted and a small fraction of the cost to the UK economy of a loss of trade with the US due to reciprocal tariffs. The best long-term solutions to online dangers lie elsewhere.

The US Administration issued a Memorandum on 20th January 2025, stating that the OECD's Global Tax Deal has no force or effect in the US, as it limits US economic competitiveness and hinders the US's ability to enact tax policies that serve US businesses and workers. **The UK should follow the US lead and also leave the OECD's Global Tax Deal, using the greater flexibility to create a more competitive corporate tax structure in the UK. Several UK companies were already planning to leave the UK for the US due to the UK's high energy costs and regulatory burdens; however, if the US also has considerably lower corporate taxes, UK corporate departures could become a torrent**.

The UK and US would also need to standardise their intellectual property, trademark, and patent rules to increase service trade between the two countries.

Security of supply chains

The US and UK's shared national security priorities and their need for secure supply chains were reiterated in the UK-US EPD. The EPD specified that the US would only remove its Section 232 Tariffs on UK steel and aluminium products if these goods met the US supply chain security requirements, including the ownership of the production facilities. The EPD also required supply chain security for pharmaceuticals and pharmaceutical ingredients.

The reference to steel and aluminium production facility ownership is because the Chinese Jingye Group owns British Steel, although the British Government has recently taken control

152 UK Department for Science, Innovation & Technology. (2023). *UK-US data bridge: factsheet for UK organisations*, 21 September. Available at: https://www.gov.uk/government/publications/uk-us-data-bridge-supporting-documents/uk-us-data-bridge-factsheet-for-uk-organisations (Accessed 8 July 2025).

153 UK Government. (n.d.). *Data protection*. Available at: https://www.gov.uk/data-protection?form=MG0AV3 (Accessed 8 July 2025).

154 Presidente, G. and Frey, C.F. 'The GDPR effect: How data privacy regulation shaped firm performance globally', CEPR/VOXEU, 10 March. Available at: https://cepr.org/voxeu/columns/gdpr-effect-how-data-privacy-regulation-shaped-firm-performance-globally (Accessed 8 July 2025).

of its Scunthorpe plant to prevent its closure by Jingye.[155] The US administration was aware of British Steel's ownership, and steel goods exported by British Steel were mentioned in the US Harmonised Tariff Schedule after Jingye bought the Scunthorpe Steelworks in March 2020. The US required the UK to provide an attestation that there was no evidence of market-distorting practices by Jingye at its UK production facilities before products made by British Steel could be exported to the US.

The fear of reliance on China for goods has been a concern for both the Trump and Biden Administrations. The Biden Administration retained Trump's first-term tariff restrictions on Chinese goods and doubled many of them towards the end of his Presidency. Both US administrations encouraged the onshoring of critical industries. This initiative began with the CHIPS for America Act in June 2020, which aimed to boost US domestic semiconductor manufacturing through direct grants and loans for semiconductor production, as well as R&D incentives. This was later incorporated into the CHIPS and Science Act in August 2022, which included grants for workforce training programs and a 25% investment tax credit.[156]

The Biden Administration also introduced an incentive program to onshore the production of active pharmaceutical ingredients by utilising tax credits, direct grants, and military contracts, as well as public-private partnerships to onshore essential medicine production,[157] and the Buy American Preference to prioritise US-made drugs in Medicare and Medicaid programs. Additionally, there was an attempt to simplify the FDA approval process for new US pharmaceutical plants. The second Trump administration has initiated a Section 232 investigation by the US Department of Commerce into imported pharmaceuticals, including active ingredients, key starting materials, and derivative products. This could result in a tariff to protect US National Security on imported pharmaceuticals or on active pharmaceutical ingredients.

The US ability to onshore production of critical components lost to China and other countries is relevant to a potential UK-US trade agreement. The UK is also reliant on imports of many of the same components as the US, but unlike the US the UK does not currently have the resources, capital, or political will to onshore most of these industries.

During COVID, many Western countries discovered how reliant they were on China for active ingredients for pharmaceuticals, rudimentary computer chips for vehicle manufacturing, and batteries for EVs. The UK was particularly hard hit, and this continued into 2022 and 2023 when China decided to keep its factories shut in an attempt to eliminate COVID. The UK's car manufacturers relied on Chinese-made computer chips for their cars, and, given that 80% of UK cars are manufactured for export, the revealed fragility of the supply chain meant that total UK exports fell. The US also experienced problems with Chinese supply chains, leading to a decision to onshore more of its strategically important production.

155 At the time of publication, Jingye remains the legal owner of British Steel but nationalisation by the UK Government is "the likely option" according to Business Secretary Jonathan Reynolds (Meierhans, J., Seddon, S., and Davis, M. 'Why did the government take control of British Steel?', *BBC*, 11 April. Available at: https://www.bbc.co.uk/news/articles/c5y66y40kgpo (Accessed 8 July 2025)).

156 The White House. (2024). *FACT SHEET: Two Years after the CHIPS and Science Act, Biden- Harris Administration Celebrates Historic Achievements in Bringing Semiconductor Supply Chains Home, Creating Jobs, Supporting Innovation, and Protecting National Security*. Available at: https://bidenwhitehouse.archives.gov/briefing-room/statements-releases/2024/08/09/fact-sheet-two-years-after-the-chips-and-science-act-biden-%e2%81%a0harris-administration-celebrates-historic-achievements-in-bringing-semiconductor-supply-chains-home-creating-jobs-supporting-inn/ (Accessed 8 July 2025).

157 Balfour, H. (2025). 'Biden Administration to support resilience of US pharma supply chain', *European Pharmaceutical Review*, 2 August. Available at: https://www.europeanpharmaceuticalreview.com/news/159458/biden-administration-to-support-resilience-of-us-pharma-supply-chain/ (Accessed 8 July 2025).

In 2020, the US decided to onshore more of its strategically important semiconductor production with the $52 billion Creating Helpful Incentives to Produce Semiconductors and Science Act (CHIPSS).[158] The EU also has a European Chips Act, which aims to invest €43 billion to double the EU's global market share in semiconductors from 10% to 20% by 2030 and "reduce dependency on foreign actors."[159] South Korea is also investing ₩65 billion through the K-Chips Act[160], in tax credits, and R&D grants to secure its place in global semiconductor production and infrastructure. Japan has committed $7 billion for next-generation chips and quantum computing research and $3 billion to onshoring advanced chip production, as well as providing subsidies to TSMC and Micron Technology to develop semiconductor facilities in Japan.[161] The Indian government is offering $1 billion dollars for each new semiconductor fab set up in India. Meanwhile, China is not resting on its laurels; its goal is to become self-sufficient in all segments of the semiconductor value chain using grants, equity investments, favourable loans, and tax breaks.

However, the UK is not on this list of countries trying to onshore semiconductor production despite semiconductors being a key component of the UK's main manufacturing industries. At best, the UK has invested £40 million over five years in a Proof of Concept Fund that has helped Pragmatic Semiconductor raise £182 million to expand its semiconductor wafer manufacturing facility[162]. However, UK manufacturers will benefit from diverse supply chains if they agree to a trade deal with the US, which has successfully onshored semiconductor manufacturing and expanded its domestic production of active pharmaceutical ingredients (APIs).

This is also the case with new steel and aluminium production. The UK has allowed these industries to close while the US has added 50% tariffs to imported aluminium and steel to protect its domestic producers. It is not unreasonable for the UK to have let primary steel and aluminium production decline; the UK must import its iron ore, metallurgical coal, and bauxite. These imported materials are just as vulnerable to supply disruption as imported finished aluminium and steel. However, if the UK is to continue to make high-value aircraft engines, aircraft parts, and cars, it will still need a reliable supply of imported steel, aluminium, and semiconductors. **A UK-US trade deal could give the UK a reliable supply of components from the US, without the need for these goods to traverse the Suez Canal or other choke points vulnerable to disruption or attack.** This would enable the UK to continue making and exporting finished aircraft engines, parts, and landing gear, as well as cars and other machinery, back to the US.

Security of supply chains has become extremely important and extends beyond steel, aluminium, semiconductors, and APIs. China controls over 90% of global rare-earth refining and has put export restrictions on rare-earth magnets, requiring companies to obtain Chinese

158 Semiconductor Industry Association. (n.d.). *Chip Incentives and Investments*. Available at: https://www.semiconductors.org/chips/?form=MG0AV3&form=MG0AV3 (Accessed 8 July 2025).

159 European Council. (2025). *The EU chips industry*. Available at: https://www.consilium.europa.eu/en/policies/eu-chips-industry/?form=MG0AV3&form=MG0AV3 (Accessed 12 February 2025).

160 The Korea Times. (2025). *National Assembly passes bill on expanding tax incentives for chipmakers*, February 27. Available at: https://www.koreatimes.co.kr/southkorea/law-crime/20250227/national-assembly-passes-bill-on-expanding-tax-incentives-for-chipmakers (Accessed 8 July 2025).

161 Swayne, M. (2025). 'Japan Boosts Semiconductor, Quantum R&D with Trillion-Yen Budget', *Quantum Insider*, 16 January. Available at: https://thequantuminsider.com/2025/01/16/japan-boosts-semiconductor-quantum-rd-with-trillion-yen-budget/ (Accessed: 1 July 2025).

162 UK Department for Science, Innovation and Technology. (2024). *Government back UK R&D with record £20.4 billion investment at Autumn Budget*, 31 October. Available at: https://www.gov.uk/government/news/government-backs-uk-rd-with-record-204-billion-investment-at-autumn-budget (Accessed 9 July 2025).

government approval before exporting certain elements.[163] This has disrupted the production of EVs, military equipment, and aerospace products. China has also imposed export controls on critical minerals used in the production of electronics and semiconductors, radar systems, missile guidance, stealth technology, wind turbines, solar panels, electric vehicles, catalytic converters, MRI machines, and night vision technology.

Security and reliability of supply is now as important as price for the UK's precision machinery export production. The US's policy of onshoring key components such as semiconductors, aluminium, steel and APIs will benefit UK vehicle, aircraft parts, and pharmaceutical production, which are the UK's largest goods export sectors. **A trade agreement with the US would benefit UK manufacturers by allowing them to diversify their supply chains to new US manufacturers and give US manufacturers new customers.**

Summary

The chapter has outlined the potential for a comprehensive UK-US trade agreement to boost bilateral trade by eliminating tariffs and quotas, particularly in clothing, footwear, luxury goods, vehicles, pharmaceuticals, food and agriculture. A comprehensive trade agreement could also strengthen supply chain security for critical components such as semiconductors and pharmaceuticals, addressing industrial vulnerabilities exposed during COVID-19 disruptions. Additionally, mutual recognition of regulatory standards and addressing barriers such as the Online Safety Act could expand service trade, benefitting both economies through increased market access.

163 Rare Earth Exchanges. (2025). *Beijing Tightens the Noose: New Bureaucratic Export Controls on Key Rare Earth Magnets Signal Strategic Clampdown on U.S. and Allies*, 15 May. Available at: https://rareearthexchanges.com/news/beijing-tightens-the-noose-new-bureaucratic-export-controls-on-key-rare-earth-magnets-signal-strategic-clampdown-on-u-s-and-allies/ (Accessed 8July 2025).

3. Conclusion and proposals

Recommendation one: An ideal UK-US trade deal

The ideal trade agreement must consider future trade and growth in trade as well as present trade. The UK and the US produce high-standard goods and services, maintain high labour and employment standards, and operate open and competitive markets, all of which are governed by legally enforceable regulations. Any trade agreement between the two nations should incorporate mutual recognition of standards, and ideally, any disputes should be settled by mediation to reach an amicable settlement.

Both the US and the UK have signed trade agreements with other Anglosphere countries, and elements of these agreements would be ideal for a UK-US agreement. The US and UK are also signatories to multiple multilateral trade agreements, such as the WTO and the General Agreement on Trade in Services (GATS), and international conventions, such as the World Intellectual Property Organization (WIPO).

The UK-US trade agreement could follow the US Australia FTA (AUSFTA),[164] which took just over a year to negotiate and less than 8 months to come into effect. Since its implementation, trade in goods and services between the two countries has more than doubled, and investment has more than tripled. In 2023, total US-Australia trade was valued at just under $100 billion.[165]

Market access for goods

A UK-US trade agreement should immediately remove all tariffs and quotas on goods. The US and the UK have similar production costs, employment regulations, and currency levels, so both countries should remove all tariffs and quotas on each other's products as soon as the agreement comes into force.

Neither country's industries pose a threat to the other's. Both countries possess complementary economies that will benefit from imports from one another. There is no need to shield their industries with lengthy lead times before eliminating tariffs and import quotas, as both nations have done when negotiating trade deals with less developed or lower-wage countries.

Instead, a UK-US trade agreement should include a safeguarding clause that can be triggered if a good imported from one Party, which is also produced commercially in the other

a) falls below a certain average price level; *or*
b) imports exceeding a specific quantity level; *or*

164 Australian Government, Department of Foreign Affairs and Trade. (2004). *Australia-United States Free Trade Agreement – Guide to the Agreement, 21. Institutional Arrangements and Dispute Settlement.* Available at: https://www.dfat.gov.au/about-us/publications/trade-investment/australia-united-states-free-trade-agreement-guide-to-the-agreement/Pages/21-institutional-arrangements-and-dispute-settlement (Accessed 8 July 2025).

165 Australian Government, Department of Foreign Affairs and Trade. (n.d.). Australia-United States FTA. Available at: https://www.dfat.gov.au/trade/agreements/in-force/ausfta/australia-united-states-fta (Accessed 8 July 2025).

c) a strategically important industry in one party being driven out of business by similar imports from the other party.

In these cases, the safeguarding provision can be activated to either temporarily reimpose duties at the pre-trade agreement level or halt further imports for an agreed period. Such safeguard measures must remain temporary, however.

Both countries should agree to eliminate export subsidies on products destined for the other country.

Product regulations, including SPS and TBT

The UK-US trade agreement should include a commitment by the parties to cooperate to reduce technical barriers to trade (TBTs) and improve market access to each other's products. Both the US and the UK have developed product and health standards to protect their populations from faulty or dangerous products, not to protect their manufacturers from import competition.

The US and UK already have MRAs covering Conformity of Marine Equipment,[166] Telecommunications equipment, Electromagnetic Compatibility, and Pharmaceutical Good Manufacturing Practices.[167] Similar agreements should be made to cover other traded goods.

Product standards in each country should be mutually recognised. Trade is based on differentials in product types, qualities, and costs and should not require the same product standards or regulations. The UK and the US should agree on mutual recognition of product standards within a tolerance level.

The UK should request that the US FDA establish a formal fast-track approval process for UK MHRA-approved medicines, as Australia, Canada, Singapore, and Switzerland have done.[168] The International Recognition Procedure enables the UK's MHRA to expedite approvals for pharmaceuticals already authorised by trusted regulators, such as the US FDA.

The US FDA and the UK MHRA have an MRA for Good Manufacturing Practices[169], which streamlines facility inspections for both human and veterinary medicines. The FDA and the UK have considered expanding the scope of the MRA to include vaccines and plasma-derived pharmaceuticals for human use. They have decided to reassess the issue in July 2025, based on further evaluation.

US and UK SPS measures must have equivalent outcomes and must be based on science. A regulatory committee comprising medical, veterinary, and horticultural specialists should be established to address any SPS issues that may arise as quickly as possible. This committee should aim to prevent outbreaks of disease or contamination from products imported by the parties and to find a technical solution for containing and eliminating any threats. Any fine or

166 United States Coast Guard. (2019). *Agreement between the United States of America and the United Kingdom of Great Britain and Northern Ireland on the mutual recognition of certificates of conformity for Marine Equipment*, 14 Feb 2019. Available at: https://www.dco.uscg.mil/Portals/9/20190214%20UK-US%20MRA%20for%20Marine%20Equipment.pdf (Accessed 8 July 2025).

167 United States Trade Representative. (2019). *Agreement on Mutual Recognition between the United States of America and the United Kingdom of Great Britain and Northern Ireland.* Available at: https://ustr.gov/sites/default/files/UK-US-Framework-MRA-signed.pdf (Accessed 8 July 2025).

168 UK Medicines and Healthcare products Regulatory Agency. *MHRA announces new recognition routes.*

169 US FDA. *United Kingdom (UK) Mutual Recognition Agreement.*

compensation necessary following an SPS infringement should be handled by the legal system of the relevant injured party.

TBTs relating to environmental regulations may be more challenging to overcome. For example, the US has announced its intention to withdraw from the Paris Climate Accord, while the UK is doubling down and has proposed joining the EU's more expensive ETS and CBAM. This could greatly reduce US UK trade in metals and industrial goods.

Rules of origin

The FTA's Regional Value Content (RVC) calculations for the ROO should include the IP input value of a good as well as the materials used in production, freight, insurance, and customs duty costs. Both US and UK companies invest heavily in R&D, innovation, design, and brand creation, yet this value is generally excluded from RVC calculations. This proposal is explored in more detail in Recommendation two.

The FTA should allow the cumulation of parts or components made in one Party and used as input in goods made in the other to be included in RVC calculations. If both Parties have a comprehensive trade agreement with a third country, the Parties could also agree to allow components and parts made in that third country to be included in RVC calculations.

Service trade

Financial services and investments

The regulatory equivalence of supervisory bodies should be recognised. A trade agreement between the US and the UK should cover cross-border trade in all financial services, acknowledge the equivalence of supervisory authorities and regulations governing the other party's financial institutions, and prohibit any restrictions on market access for any reason other than financial solvency, or criminal or legal propriety.

Regulatory equivalence should be granted to all regulated services, including pensions, payments, electronic money, and cryptocurrency or tokens, while any requirement for firms to establish a local presence or joint venture as a condition for supplying a service should be removed.

Investors from one party and their investments in the other party's territory should be protected by the same laws as domestic investors and investments. Funds related to an investment should be able to flow freely from one party to the other. Investors should be able to hire key managerial staff from either party or from a country not party to the trade agreement, provided they meet any standards set by the service regulators. A Party should not be able to prevent investors from the other Party from controlling their investment.

Any service agreement should include non-discrimination and transparency clauses, but both parties should be able to exclude services provided by government authorities on a non-commercial basis. Some sectors or industries related to national security or defence should also be exempt from the agreement's investment provisions.

The US and the UK should have confidence in the integrity and equity of each other's legal systems and courts to settle any commercial or investor-state disputes.

Telecommunications and digital trade

A trade agreement between the UK and the US should mutually recognise regulations in data sharing and digital product markets; prohibit tariffs on digital products; allow data to be transferred across borders without restrictions; should not require data to be stored locally; include enforceable consumer protections, such as privacy and protection against unsolicited communications; promote open access to government-generated public data; encourage collaboration among the parties to address cybersecurity challenges; and limit the liability of third-party platforms for content created by users.

The trade agreement should add US organisations regulated by the Securities and Exchange Commission (SEC), the National Association of Insurance Commissioners (NAIC), or the Federal Reserve System to the UK's Data Privacy Framework (DPF) list to increase trade in digital financial services. Since October 2023, the UK has established a data bridge that allows UK companies to transfer personal data to US organisations provided the US organisation has been certified to the UK extension, appears on the UK's DPF list, and is subject to the jurisdiction of the US Federal Trade Commission or the US Department of Transportation are eligible to participate. This excludes companies involved in banking, insurance, and telecommunications[170], which could make digital trade in financial services more difficult. Alternatively, the UK might prefer to move away from its version of the EU's General Data Protection Regulations (GDPR), which constrain international businesses from sending customer data collected in the UK to the US.

A UK-US trade agreement should also encompass telecommunications and ensure fair competition between suppliers, as well as equal levels of consumer protection. Suppliers from either party should provide access to their networks, allow users to communicate across different networks, retain their telephone numbers when switching between service providers, and receive equal service quality. Suppliers from either party should be able to provide roaming services to the other party. Parties should implement measures to protect personal data privacy, and regulators in each party should prevent any abuse of monopoly control over essential telecommunication facilities.

Intellectual property

The US and UK should adopt mutual recognition of IP protections and regulations and adopt the longer duration of the two countries' IP protection. As discussed above, there are differences in the duration of various IP protections, however these could be streamlined so that both parties accept the longer party's protection. Both parties should provide protection for Trademarks and Geographical Indicators registered in the other party. This should also cover internet domain name management and registration. The US and UK signed an agreement in 2019 regarding mutual recognition, labelling requirements, and restrictions on the use of product designations such as "Scotch whisky", "Irish whiskey", Tennessee whiskey", "Bourbon whiskey" and "Bourbon."[171] The US and UK also agreed to extend the agreement in the future to cover other distilled products that either party may propose for consideration. This extension should be part of a comprehensive trade agreement. The US and UK also signed an agreement on mutual

170 UK Department for Science, Innovation & Technology. *UK-US data bridge: factsheet for UK organisations.*

171 UK Government. (2019). *Agreement between the United Kingdom of Great Britain and Northern Ireland and the United States of America on the Mutual Recognition of certain distilled Spirits/Spirit Drinks*, 31 January. Available at: https://assets.publishing.service.gov.uk/media/673dfae2b3f0df6d2ebaef46/TS_87.2024_UK_USA_Agreement_Mutual_Recognition_Distilled_Spirits.pdf (Accessed 9 July 2025).

recognition of authorised winemaking practices, wine labelling, and names of origin.[172]

The trade agreement should also prohibit the sale in either Party's jurisdiction of goods or services produced using infringed IP, including IP infringed by companies based in countries not party to the trade agreement. This should include cyber piracy and the marketing of any pharmaceutical products or agricultural chemicals that infringe patents.

The US and UK are both signatories to various international conventions covering intellectual property, trademarks, and patents, including the World Intellectual Property Organization (WIPO), the International Convention for the Protection of New Varieties of Plants (UPOV Convention), which aims to provide and promote an effective system of plant variety protection to encourage the development of new plant varieties for the benefit of society; the Trademark Law Treaty (TLT), which aims to standardise and streamline national and regional trademark registration procedures, making it easier and more predictable to apply for and manage trademarks across multiple jurisdictions; the Brussels Convention Relating to the Distribution of Programme-carrying Satellite Signals; and the Patent Cooperation Treaty (PCT), which allows applicants to seek international patent protection by filing a single application that can be recognised by all member countries.

Competition

The trade agreement should foster fair competition and prohibit any anticompetitive business practices or market distortions. Both the US and the UK have authorities responsible for ensuring adequate competition in markets. The US Federal Trade Commission (FTC) and the UK's Competition and Markets Authority (CMA) share common objectives and already collaborate closely[173], although this should be enhanced in any UK-US trade agreement that could lead to increased monopolies across both jurisdictions. Both the CMA and the FTC are committed to protecting consumers by promoting competition and curtailing anti-competitive practices. The FTC also addresses consumer privacy and data security and has the authority to initiate investigations, bring cases to court, and issue administrative orders. The CMA can conduct investigations, issue decisions, and impose penalties for breaches of competition law in the UK.

Government procurement

A UK-US trade agreement should require both parties to implement fair and transparent procurement procedures across all levels of government and their departments. This encompasses federal, state, and local governments in the US, as well as national and devolved nation governments, and municipal authorities in the UK. All tiers of government must refrain from discriminating against goods, services, and suppliers from the other party. Tendering criteria, rules, and award provisions ought to be transparent, publicly available, and easily accessible. The UK's Memoranda of Understanding (MOUs) signed with various US States are helping UK companies navigate State procurement processes and ensure that UK suppliers are treated no

172 UK Government. (2019). *Agreement between the United States of America and the United Kingdom of Great Britain and Northern Ireland on Trade in Wine*, 31 January. Available at: https://ustr.gov/sites/default/files/UK-US_Agreement_on_Trade_in_Wine_signed_Jan_31_2019.pdf (Accessed 9 July 2025).

173 Federal Trade Commission. (2021). *Joint Statement from FTC, DOJ Antitrust Division, and UK Competition and Markets Authority Leadership Following the G7 Competition Enforcers Summit*, 3 December. Available at: https://www.ftc.gov/news-events/news/press-releases/2021/12/joint-statement-ftc-doj-antitrust-division-uk-competition-markets-authority-leadership-following-g7?-form=MG0AV3&form=MG0AV3 (Accessed 9 July 2025).

less favourably than suppliers from other States.[174]

The UK also agreed, as part of the UK-US EPA, to endeavour to improve the overall environment for pharmaceutical companies operating in the UK. As mentioned above, in a comprehensive trade agreement, the UK should request that the US FDA offer a fast-track approval process for UK pharmaceuticals. The *quid pro quo* would be that UK pharmaceutical companies would guarantee to sell drugs in the US at the same price as they do in the UK, thereby alleviating the White House's concerns about unequal drug pricing.[175] This should be possible if the costs of reapproval by the USFDA of drugs already approved by the UK's MHRA are removed, and there are no Section 232 tariffs applied to UK pharmaceuticals.

Ideally, the UK-US trade agreement would follow the UK-Australia trade agreement, which allows companies that make pharmaceuticals and medical devices to bid for government contracts on the same terms as domestic firms, with transparent tendering processes, no imposition of local content requirements, and a simplified procurement process to encourage SME participation.[176] Currently, US pharmaceutical companies can apply to supply medicines to NHS England Hospitals and pharmacies if they meet the NHS Framework Agreement requirements on pricing, supply continuity, and distribution. US pharmaceutical companies supply the NHS with innovative oncology medicines and diagnostic tests. However, a trade agreement could improve access to NHS procurement for US companies.

The NHS purchases pharmaceuticals worth £19 billion each year and has strict cost-effectiveness thresholds to determine whether drugs offer value for money. This often limits purchases of the latest drugs, which have large R&D costs built into their prices, and for which there is less data on their cost-effectiveness. NHS procurement is governed by the Medicines Framework Agreements and competitive tendering, which favours local distribution networks, established relationships, and familiarity with NHS systems

The NHS's Voluntary Scheme for Branded Medicines Pricing, Access, and Growth (VPAG) allows annual NHS spending to increase by up to 4% by 2027-28. VPAG has tiered clawback rates if a pharmaceutical company's sales revenue exceeds the prescribed levels. The Association of the British Pharmaceutical Industry (ABPI) expects 2025 clawbacks to reach £3.5 billion, about 22.9% of medicine sales.[177] The UK's rebate rate is one of the highest in Europe, and the ABPI believes the scheme is making the UK un-investable. Two US pharmaceutical companies have withdrawn from the VPAG scheme. This should be addressed in a comprehensive UK-US trade agreement.

Employment rights

The US and the UK adhere to similar employment standards, including wage levels, employment rights, and benefits. It is improbable that either country would derogate from its fundamental employment protections to encourage trade with or investment from the

174 UK Department for Business and Trade. (2022). *UK MOUs with US states on economic cooperation and trade relations*. Available at: https://www.gov.uk/government/collections/uk-mous-with-us-states-on-economic-cooperation-and-trade-relations (Accessed 9 July 2025).

175 The White House. (2025). *Delivering Most-Favored-Nation Prescription Drug Pricing to American Patients*, 12 May. Available at: https://www.whitehouse.gov/presidential-actions/2025/05/delivering-most-favored-nation-prescription-drug-pricing-to-american-patients/ (Accessed 9 July 2025).

176 UK Government. (n.d.). *Exporting life sciences to Australia*. Available at: https://www.business.gov.uk/export-from-uk/markets/australia/sector-explainers/life-sciences/ (Accessed 9 July 2025).

177 Barham, L. 'Buyer's remorse: the UK's VPAG'.

other party.

Any product manufactured outside the parties to the trade agreement but designed by and made for companies headquartered within the agreement, can be included as a qualifying good under the agreement, if the IP input within the parties is greater than the manufacturing value, provided that the product is manufactured in countries with market economies that uphold the overarching employment rights maintained by the parties to the agreement. Employment rights include the right of employees to organise and bargain collectively, the prohibition of forced or compulsory labour, and acceptable conditions and compensation relating to wages, hours, and occupational safety. The parties to the trade agreement should identify which countries uphold adequate labour regulations so that any products manufactured in these countries for US or UK companies, based on US or UK designs, can be included in the RVC calculation for the ROO in the trade agreement.

Environmental protection regulations

The trade agreement between the United States and the United Kingdom should adhere to the environmental regulations established by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).[178] These regulations require the signatory parties to incorporate measurable objectives into their domestic legislation aimed at safeguarding the environment from hazardous contaminants while simultaneously conserving wildlife and marine ecosystems.

Most modern trade agreements include a chapter on the environment, as environmental regulations have become a significant cost to industry in countries with enforceable environmental regulations. Imported goods from countries that don't have enforceable environmental regulations or have less stringent regulations can undercut domestic production.

There is a case to be made that a trade agreement between the US and the UK could omit an environmental chapter, as both countries have established environmental rules. Although these rules differ, they haven't prevented trade between the two countries. Instead, it is the UK's environmental regulations and taxes that have led to an increase in US LNG imports in recent years. UK imports from the US are expected to increase in the near future because the UK's environment regulations are driving the UK's chemical and plastics industry offshore, often to the US.

Any trade agreement covering environmental protection regulations would first need to agree on which elements of the environment the parties want to protect. Some disagreements exist in this area which would need to be resolved. Most notably, the US is in the process of withdrawing from the Paris Agreement on climate change, while the UK has legally committed to its goals.[179] The UK's Climate Change Act sets a legally binding target to achieve net-zero greenhouse gas emissions by 2050. Consequently, the UK now has the developed world's most expensive industrial electricity, and the country is deindustrialising. In contrast, the U.S. Environmental Protection Agency (EPA) has just announced 31 deregulations aimed at unleashing US energy, lowering the cost of living,

178 New Zealand Ministry of Foreign Affairs and Trade, 'Chapter 20: Environment' in *Comprehensive and Progressive Agreement for Trans-Pacific Partnership*. Available at: https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp (Accessed 9 July 2025).

179 UK Department for Business, Energy & Industrial Strategy. (2016). *UK ratifies the Paris Agreement*, 18 November. Available at: https://www.gov.uk/government/news/uk-ratifies-the-paris-agreement?form=MG0AV3 (Accessed 9 July 2025).

and revitalising American industry.[180] However, both countries can agree on the environmental commitments in the CPTPP. The US was one of the original parties to the Trans Pacific Partnership when these commitments were agreed although it did not formally accede to the group, while the UK has recently acceded to the agreement.

The UK is proposing to add a successor CBAM to imported steel, aluminium, ceramics, cement, glass, fertiliser and hydrogen in 2027, while the US is also looking at similar legislation with its Foreign Pollution Fee Act. The US regulation is currently only in the committee stage but covers the same products as the UK's CBAM, as well as solar panels, batteries, and critical minerals. The UK-US EPD included a commitment to environmental policies and practices. Joining the EU's ETS and CBAM schemes would be detrimental to the UK-US EPD agreement, as it would make any steel and aluminium imported from the US more expensive.

Customs administration

The parties to the agreement must have transparent, predictable, and efficient customs procedures. All regulations and requirements should be published in an easily accessible format in both countries, and each country should notify the other of any changes in its regulations. They should also publish all requirements for goods to qualify as originating goods under the agreement. All customs procedures should be automated where possible, and customs checks should be based on reasonable suspicions of import infringements.

Digitalising trade processes, such as customs clearance, logistics, and payments, would reduce costs and improve efficiency.

A digital trade corridor between the US and the UK, designed to support e-commerce, digital services, and data-driven industries, could facilitate seamless cross-border digital trade by integrating digital technologies, harmonising regulations, and enabling the secure exchange of data and goods. A digital trade corridor could increase market access for SMEs and build the trust and momentum for a broader FTA by proving the tangible benefits of digital trade collaboration.

US and UK digital trade should establish a mutually acceptable minimum threshold of approximately $500 (£400) for digital product fulfilment to encourage SMEs to use a UK-US trade agreement. Both the US and the UK have *de minimis* regulations to exempt low-value consignments from import taxes and duties. The US threshold is currently $800 (£630), while the UK threshold is only £135 ($170) for import tariffs and £39 ($50) for import VAT. *De minimis* tariff and tax exemptions are intended to encourage trade by e-commerce and digital service SMEs, as they allow direct producer-to-customer transactions. Although the US *de minimis* regulations were recently halted by the US for imports from Canada, Mexico and China, this should not apply to US and UK Business to Consumer trade as UK and US SMEs are unlikely to abuse this benefit to small businesses.

Dispute settlement, corruption, and exemptions

A compliance review mechanism and working groups should be established, covering each section of the agreement with representatives from both parties, so that any disputes can be resolved swiftly by mediation, leading to an amicable settlement. Failing that, the US and the UK should have confidence in the integrity and equity of each other's legal systems and

180 United States Environmental Protective Agency. *EPA Launches Biggest Deregulatory Action in U.S. History.*

courts to settle any commercial or investor-state disputes.

This may sound fanciful to some UK trade lawyers; however, the Australia-US FTA has achieved this. AUSFTA established an effective procedure for settling disputes arising under the Agreement, which does not allow private investors to challenge government decisions directly but provides high standards of openness and transparency in the resolution of disputes between the Australian and United States Governments and provides for flexible compensation arrangements for resolving disputes.

In recognition of the US and Australia's shared common-law based legal systems, and the confidence of investors in the fairness and integrity of their respective legal systems, the US Australia FTA Investment Chapter does not establish an investor-state dispute settlement mechanism, of the type that prevented the US EU TTIP agreement. However, individual investors are able to raise concerns about their treatment by the United States with the Australian Government (or vice versa), which is able to pursue these issues through traditional state-to-state dispute settlement.[181]

The US and the UK also have a shared common law based legal system, and any trade agreement between the two countries should have confidence in each other's legal system. However, each party should be able to exempt its essential defence or security interests from any part of the agreement.

Each party should agree to combat bribery and corruption in international business transactions and work together to combat IP theft and counterfeiting. Intellectual property rights protection and enforcement are also part of the EPD.

Extending or ending the agreement

Either party can leave the agreement after giving the other party six months' notice. Additional parties could accede to this agreement provided the original parties approve and that any additional parties meet the same or equivalent product standards and employment rights and agree to abide by all provisions in this agreement.

181 Australian Government, Department of Foreign Affairs and Trade. Australia-United States Free Trade Agreement.

Recommendation two: Re-assess the rules of origin

Rules of origin should be changed so that IP and R&D are factored into the RVC of traded goods. This would increase the number of goods that could be included in the agreement and benefit from the reduced tariffs and trade barriers.

A trade deal between the US and the UK would provide an opportunity to reassess how we evaluate product value for ROO purposes. The current tariff structure in most trade agreements focuses solely on the manufactured value of a good, overlooking the contributions of design, R&D and brand creation, all of which are vital to the overall value of the product and often worth considerably more than the manufactured content. Both the US and the UK are developed economies primarily engaged in the latter elements of production, yet this is not currently factored into their products' value for trade purposes. Only the Trade in Goods Agreement between the Association of Southeast Asian Nations (ASEAN) provides for direct and indirect costs, such as R&D.[182]

Both the US and the UK are at a stage in their development where most of their remaining manufacturing is centred around high-tech precision machinery. R&D, IP, product design, and brand creation contribute significantly more value to UK and US-manufactured goods than the material cost of production. However, traditional calculations of RVC only account for material manufacturing costs and transport costs, but no other service value is included. The US and the UK share a common incentive to change this.

US companies have successfully quantified and separated the brand value and intellectual property value of their goods for tax purposes. Consequently, a UK-US trade agreement should include the value invested in research, product development, design, and brand creation as originating material when calculating their regional value content for ROO requirements. IP would be included using the transaction value method of calculating the RVC of a good, if all parts manufacturing and final assembly happened in the US or the UK. However, most production in developed nations now uses imported parts and semi-finished goods, and in some cases, such as clothing, footwear, and consumer electrical goods, all materials and manufacturing have been offshored. Consequently, if a UK store imports Nike shoes, Levi's jeans, or Apple iPhones, these are currently not counted as US products even though the products' desirability is dependent on the design, marketing, branding, and R&D that is based in the US rather than the manufacturing costs incurred in developing countries. Manufacturing can move from one developing country to another depending on relative wages and currency values while a product's headquarters is the home of more valuable additions of invention, innovation and marketing.

Currently, the eligibility of a good to be considered as originating from a country in a trade agreement is determined by the ROO which outline the criteria that a product must meet to qualify for preferential treatment under the trade agreement. The product must be either: wholly produced using materials and processes from the FTA parties; or all non-originating materials used in the production of the good have undergone a substantial transformation and a change in tariff classification, character, or use; or the product must have a specific percentage of originating

182 Inama, S., Sim, E.W. (2015). 'Appendix 5 – ATIGA Annex 5 Principles and Guidelines for Calculating Regional Value Content on the ATIGA' in *Rules of Origin in ASEAN: A Way* Forward. Cambridge: Cambridge University Press, p. 197-98. Available at: https://www.cambridge.org/core/books/abs/rules-of-origin-in-asean/atiga-annex-5-principles-and-guidelines-for-calculating-regional-value-content-on-the-atiga/B6A60E821302ECD274435BE81988F658 (Accessed 9 July 2025).

material that meets the minimum RVC requirement specified in the FTA.

The ROO ensure that only goods genuinely originating from the FTA parties benefit from the agreement, thereby preventing trade deflection and fostering fair competition. Trade agreements may include specific regulations for various product categories. For instance, the ROO for the current UK-EU Trade and Cooperation Agreement (TCA) extend to over 1,000 pages; in contrast, the UK-Australia FTA comprises only 273 pages, while the New Zealand FTA consists of merely 118 pages.

However, almost all requirements for ROO pertain to materials, but not to any intellectual input used to create the product. Services such as freight, insurance, and customs fees, however, can be included in the originating value of a good. Most trade agreements address other intangible assets like IP and R&D as services and consider them separate from the regional value content. This fundamentally undervalues the contributions of product development made in developed nations. There is no reason why the ROO in a UK-US trade agreement could not also include these intangible contributions. Companies with valuable brands that produce low-value products have been able to franchise their production and charge a licensing fee for the use of their brand, trademark, and operational support. UK or US clothing designers or electrical goods designers should be able to include the value they add to their products for their design, brand, research, development, trademark, and operational support. This would allow the product to be regarded as a UK or US product under the trade agreement, even if the manufacturing or the parts are sourced elsewhere.

Including IP values in the RVC will increase the number of goods covered by the trade agreement. For example, the USMCA currently requires an RVC of 75% for automobiles. Such a high RVC would exclude most UK products from a trade agreement. The UK-EU Trade and Cooperation Agreement requires a minimum RVC of 45% for EVs, which will increase to 55% in 2027. This is likely to exclude both UK and EU EVs unless both countries greatly increase their battery production. The UK-New Zealand trade agreement has RVCs as low as 25%, which would encompass many goods manufactured in Asia using New Zealand materials. Identifying an appropriate level of regional content that includes most US and UK products will be essential for a successful FTA that enhances goods trade.

Similarly, a future UK-US trade agreement should encompass the ability to cumulate the value of components and parts made by the other partner for their calculations of regional value for ROO purposes. This would encourage both the UK and the US to utilise materials and parts manufactured in one another's country. The US is actively encouraging the reshoring of manufacturing, including steel, aluminium, and semiconductor production, through the CHIPS and Science Act, as well as its increased tariff structure and tax deductions for new plant and equipment. It makes sense that UK manufacturers should take advantage of US onshoring and be encouraged to source US materials, parts, and key components through input value cumulation in a comprehensive trade agreement. Shortages in the UK of key components, such as semiconductors, during China's COVID factory shutdowns, disrupted UK car production and lowered UK exports. A trade agreement to incentivise UK manufacturers to source their key components from US producers through the cumulation process would be mutually beneficial: the UK can gain from the US's investment, and US factories would have a new customer for their products.

Ideally, the UK-US trade agreement should include the cumulation of materials and parts sourced from each party to the agreement and from countries with which both the US and the UK hold trade agreements. This would currently encompass Canada, Mexico, Australia, Chile, Peru, Singapore, and Israel and potentially also include South Korea. Additionally, the US has a critical mineral agreement with Japan, with which the UK also has a trade agreement.

Recommendation three: Commit to supply chain security

A trade agreement between two allies, such as the US and the UK, which are interconnected through multiple defence agreements, should alleviate any apprehension regarding supply constraints enforced by hostile governments.

This is not an imagined threat. In recent years, we have seen: China reduce its production of rudimentary semiconductors used in car production and as a consequence a fall in car production in the UK, Germany, and the US; the destruction of pipelines transporting Russian gas to Germany causing energy shortages and price spikes until new gas suppliers and LNG terminals could be built; and, most recently, China has put export controls on rare earth alloys, mixtures and magnets reducing production of consumer electronics, defence equipment, wind turbines and EVs, medical imaging equipment, and precision tools.

The UK-US EPD emphasised this point, with both countries committing to increasing their economic integration in critical industries and defence preparedness, leveraging government policies, licences and programs, and to ensuring more competitive, reciprocal and secure access to procurement markets. The UK-US EPD also committed to combat evasion schemes and illegal transshipments of goods from countries subject to countervailing duties, which undermine security.

Affordable transport, coupled with access to raw materials and inexpensive energy, has encouraged basic materials manufacturing to relocate to the most cost-effective locations, provided importing countries can trust their trading partners and transportation systems to deliver the imported goods. During COVID, many countries discovered they could not rely on all countries to supply them with key components.

Security and reliability of supply are now important issues in international trade. In the UK, for example, many people decry the loss of steelmaking, claiming that the ability to make steel is a matter of national security, even though all raw materials required to make steel are now imported and are just as vulnerable to supply disruption as finished products. This is also true of aluminium production, which requires bauxite and cheap electricity. The UK currently has neither. A UK-US trade agreement would enable the UK to benefit from reliable US supply chains for its aluminium, steel, and semiconductors.

Mechanisation, not trade, has reduced the number of people required for manufacturing. For instance, US employment in the steel industry decreased from around 500,000 in the 1970s to just 83,950 in 2023 due to mechanisation, technological changes, and global competition. But this has not adversely affected production: the US still produced 89.7 million tonnes of steel in

2023,[183,] an increase from 82.8 million in 1970.[184] The key driver of steel production is demand: without additional demand for steel, the US is unlikely to make more of it, regardless of any new tariff barriers. UK imports of steel and aluminium from the US would increase this demand.

Recommendation four: Revive the purpose of trade agreements

The US and UK should work together to revive the original purpose of the WTO, pursuing free trade among developed and developing countries and excluding non-market economies.

While the Trump Administration is currently increasing tariffs to bring manufacturing of basic materials and finished products back to the US, the differential in manufacturing costs between developed and undeveloped countries is so great that no level of tariffs will ever onshore some low-cost production. Lower-cost imported consumer goods have improved the standard of living for all British and American citizens. It is also important to acknowledge the benefits that offshoring production has had on the developing world. This should not be abandoned, as it has lifted millions of people out of poverty.

That said, it is important to distinguish between market economies and non-market economies. The UK-US EPD emphasised this point, with both countries committing to address non-market policies of third countries, protect and enforce IP rights, and address the use of forced labour in supply chains. The purpose of the UK-US EPD is to deepen the US and UK trade relationship based on a shared commitment to fair and reciprocal trade. This must surely also include trade with trusted third countries.

Since the end of World War II, extreme global poverty has decreased from 58.5% in 1950 to 8.4% in 2019.[185] Free trade and globalisation have played a significant role in this decline. In East Asia, extreme poverty has plummeted from 82% to 5% during the same period. However, while global inequality has diminished, internal inequality within Western nations has widened as manufacturing jobs have moved to developing nations. This trend has occurred in both the US and the UK and is something they should seek to address by creating a trade agreement among developed nations that does not exclude trade with genuine developing nations but does exclude non-market economies from free riding on this newly formed trading system.

The US and UK must establish a new trading framework that revives the original intentions of the GATS and WTO, excluding countries from joining if they permit: market distortions by state-owned enterprises (SOEs); state subsidies leading to overproduction and export dumping; complex regulatory barriers to trade; currency manipulation to gain trade advantages; intellectual property theft; and limited employment rights for their own population.

China would likely meet most of these exclusions, so any new trade group would need to identify other market economies that could serve as substitutes for Chinese inputs, or follow the US's

183 American Iron and Steel Institute. (2024). *AISI Releases Annual Statistical Report for 2023*, 5 June. Available at: https://www.steel.org/2024/06/aisi-releases-annual-statistical-report-for-2023/ (Accessed 9 July 2025).

184 National Minerals Information Center. (2024). 'Iron and Steel - Historical Statistics (Data Series 140), U.S. Geological Survey', *US Geological Survey*, 26 February. Available at: https://www.usgs.gov/media/files/iron-and-steel-historical-statistics-data-series-140 (Accessed 9 July 2025).

185 Yonzan, N., Friedman, J., Hill R., Jolliffe, M., Lakner, C., Gerszon Mahler, D. (2022). 'Estimate of global poverty from WWII to the fall of the Berlin Wall', *World Bank Blogs*, 23 November Available at: https://blogs.worldbank.org/en/opendata/estimates-global-poverty-wwii-fall-berlin-wall (Accessed 9 July 2025).

example by onshoring strategically important production. China has effectively driven many other producers out of business by protecting its substantial internal demand from imported goods and exporting its surplus production. However, developed nations contributed to China's export boom by failing to enforce the WTO's safeguard measures and by zealously implementing Net Zero policies that have weakened or eliminated Western industrial production capacity.

The US was instrumental in promoting international trade by establishing the General Agreement on Tariffs and Trade (GATT) in 1947 to eliminate trade barriers. Initially, only 23 countries were signatories to the agreement. Currently, there are 164 countries in the WTO, of which the United Nations designate 35 as least developed countries (LDCs) with a gross national income per capita of less than $1,306.[186] However, although WTO rules are outdated and need revision, the WTO requires all of its members to agree to any changes.[187]

Both the UK and the US should unite and apply pressure on the WTO to amend the trade rules regarding the self-designation of developing country status. The US has challenged China and India's self-designation as developing countries, but the WTO does not have a formal mechanism to contest a country's self-designated development status. The US and the UK are the only two nations that can effectively challenge the misuse of WTO rules, as they are both significant net importers. If they worked together to do this, many actual developing countries would support them.

The more lenient rules for developing countries, known as Special and Different Treatment, exist for a reason, and they should not be exploited by countries with advanced industrial capacities, such as space programs. Special and Different Treatment allows developing nations[188] to retain higher tariffs to protect their domestic industries, use domestic subsidies to support their industries[189], adopt policies that favour domestic suppliers in government procurement, and enhance their ability to compete in global markets while receiving support to build their trade-related infrastructure.

The provisions for special treatment of developing nations have caused frustration in the US. They contend that some countries, such as China, India, and Mexico, which have greatly benefited from WTO rules for developing nations, are now reluctant to move to trading under the WTO rules designed for developed nations. This situation has been exacerbated by the fact that WTO regulations permit countries to self-determine their developing-nation status. Moreover, both Mexico and China now have GDPs per capita exceeding $22,000[190], making them high-income countries according to the World Bank's classification.[191]

186 United Nations Conference on Trade and Development. (2024). *UN list of least developed countries*. Available at: https://unctad.org/topic/least-developed-countries/list?form=MG0AV3 (Accessed 9 July 2025).

187 Kine, P. (2021). 'China joined rules-based trading system - then broke the rules', *Politico*, 9 December. Available at: https://www.politico.com/news/2021/12/09/china-wto-20-years-524050?form=MG0AV3 (Accessed 9 July 2025).

188 United Nations Conference on Trade and Development. (2021). 'Least Developed Countries's [sic] notification obligations under the WTO Trade Facilitation Agreement', 21 September. Available at: https://unctad.org/news/least-developed-countriess-notification-obligations-under-wto-trade-facilitation-agreement?form=MG0AV3 (Accessed 9 July 2025).

189 United Nations Conference on Trade and Development. (2003). *Export Processing Zones at Risk? The WTO Rules on Subsidies*, 23 January. Available at: https://unctad.org/press-material/export-processing-zones-risk-wto-rules-subsidies?form=MG0AV3 (Accessed 9 July 2025).

190 World Bank. (2025). 'GDP per Capita in constant international $'', *Our World in Data*. Available at: https://ourworldindata.org/grapher/gdp-per-capita-worldbank?tab=line&country=CHN~MEX~BRA~IND~ZAF~ARG (Accessed 9 July 2025).

191 Hamadeh, N. Van Rompaey, C. and Metreau, E. (2024) 'World Bank Group country classifications by income level for FY24 (July 1, 2023- June 30, 2024)', *World Bank Blogs*, 30 June. Available at: https://blogs.worldbank.org/en/opendata/new-world-bank-group-country-classifications-income-level-fy24?form=MG0AV3 (Accessed 9 July 2025).

China is now the world's second-largest economy and the world's largest goods exporter, accounting for 14% of global goods exports.[192] It is also the second biggest importer, purchasing 11% of global goods imports.[193] Furthermore, China serves as a significant source of foreign direct investment (FDI) and is home to some of the largest capitalised companies globally.

However, China is not alone; India, Brazil, South Africa, Mexico, and Argentina also continue to identify as developing nations. Mexico, like China, exported a greater value of goods in 2023 than the UK, Canada, and most EU countries.[194]

Reverting to autarky may sound preferable to many politicians, but it is not possible. Even the US does not have all the materials it would need to survive without trade, and the UK has not had enough domestically produced food or raw materials to survive without trade for at least 140 years. However, relying on non-market economies, or countries that promote asymmetrical trade restrictions, or unpredictable supply chains, or countries willing to invade their neighbours, is just as perilous. The solution is a new world trade order, where all member economies open their markets fairly.

Summary

A UK-US comprehensive trade agreement presents a strategic opportunity to deepen economic ties and develop a natural partnership between two allied nations with shared values and complementary economies. By adopting mutual recognition of standards, eliminating tariffs and quotas, and incorporating IP and R&D into ROO, the agreement can enhance market access and foster fair competition. Furthermore, the US and UK should lead efforts to reform WTO rules, excluding non-market economies and ensuring fair trade practices. Such an agreement would not only boost bilateral trade and investment but also set a global standard for free, equitable, and secure trade among market economies, delivering mutual prosperity and resilience.

192 ITC.*Trade Map*. Available at: https://www.trademap.org/Country_SelProduct_TS.aspx?nvpm=1%7c%7c%7c%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c2%7c1%7c2%7c1%7c1%7c1 (Accessed 9 July 2025).

193 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProduct_TS.aspx?nvpm=1%7c%7c%7c%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 (Accessed 9 July 2025).

194 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProduct_TS.aspx?nvpm=1%7c%7c%7c%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c2%7c1%7c2%7c1%7c1%7c1 (Accessed 9 July 2025).

Conclusion

The UK-US trade relationship is characterised by a high degree of interdependence, with both countries benefiting significantly from the exchange of goods and services. The US is a major market for UK exports, particularly in the services sector, while the UK is a significant importer of US goods, including fuel, machinery, pharmaceuticals, and agricultural products.

This paper has sought to establish the true potential for a comprehensive trade agreement between the US and the UK to further enhance this relationship. Such an agreement would not only eliminate tariffs and quotas, thereby reducing costs for consumers and businesses, but also address non-tariff barriers that currently hinder trade and provide the UK with more reliable supply chains. By recognising each other's regulatory standards and simplifying customs procedures, both countries could facilitate smoother and more efficient trade flows.

The paper also highlights the importance of considering the broader geopolitical context in which UK-US trade occurs. The UK's departure from the European Union has created opportunities for its trade policy. The UK now has the flexibility to tailor its trade policies to better suit its national interests. The US, as a long-standing ally and major trading partner, is a natural candidate for a strengthened trade relationship, which would provide the UK with more secure supply chains. However, **UK-US trade potential is in danger of being undermined by the UK-EU Reset**, which would effectively allow the EU to make UK trade policy for food and agricultural goods if the UK adopts the EU's SPS, food standards, and agricultural regulations, as well as for fuels and industrial goods if the UK adopts the EU's carbon dioxide emission taxes. The Reset would create harmful barriers to UK-US trade.

Furthermore, this paper's analysis underscores the need for both countries to adapt to the evolving global trade environment. Issues such as supply chain security, IP rights, and digital platforms are becoming increasingly important. A modern trade agreement between the US and the UK should include the value of R&D, and design and brand management in the RVC of traded goods. The agreement must include provisions for the protection and enforcement of intellectual property rights in both traded goods and in their supply chains.

The potential economic benefits of a UK-US trade agreement are substantial. By removing barriers to trade, both countries can increase their export volumes, create jobs, and stimulate economic growth. Removing tariffs on goods such as automobiles, clothing, and agricultural products would make these items more affordable for consumers and enhance the competitiveness of domestic businesses. Additionally, the mutual recognition of professional qualifications and regulatory standards would facilitate the movement of skilled labour and services between the two countries.

In summary, a comprehensive trade agreement between the US and the UK has the potential to unlock significant economic benefits, enhance strategic supply chains, and strengthen the relationship between the US and the UK. By addressing both traditional and emerging trade issues, such an agreement can pave the way for a more prosperous and resilient trade relationship in the years to come.

Appendix 1: The cost of the US tariff increases to the UK

The US increased tariffs on most UK goods by 10% under the IEEPA, which authorises the President to regulate trade during emergencies. These tariffs vary by trade bloc, with the UK starting at a 10% base. IEEPA tariffs add to the free on board (*fob*) and are in addition to the MFN tariff. They apply to all imports except pharmaceuticals, copper, lumber, energy, minerals, certain semiconductors, electronics, and goods already taxed under Section 232 tariffs of 25% or 50%. The US also imposes Section 232 tariffs of 25% on imported cars and 50% on aluminium, iron, or steel products, as well as some goods in Chapters 84 and 85 of the Harmonized System.[195]

The US and UK agreed on an Economic Prosperity Deal (EPD) on 8th May 2025, enacted by Executive Order on 16th June; however, the entire agreement has yet to be finalised. The UK must demonstrate to the USTR that its steel and aluminium products have secure supply chains, including ownership of the production facilities. So far, the US has removed the 25% Section 232 tariffs on a quota of 100,000 UK cars, which are now only subject to 7.5% IEEPA tariffs and the 2.5% MFN tariffs. The US has also eliminated the Section 232 tariffs on all UK civil aircraft engines and parts, UK-made car parts for cars imported under the EPD, and it will remove the Section 232 tariffs for a quota of UK steel and aluminium goods if the UK can assure the US that its supply chains are secure. Additionally, the UK has agreed to remove tariffs on a quota of 1.4 billion litres of ethanol, and both countries have granted each other a tariff-free quota for 13,000 tonnes of beef.

UK exports to the US in 2024 were worth $69 billion, with most items having low or zero US tariffs. The new tariff rates would increase the average US tariff rate on UK imports to 12.3%. However, this assumes that the same quantity of goods continued to be imported by US customers. This is now extremely unlikely, especially for homogenous goods that can be easily substituted by US domestically produced goods.

The cost to US consumers and businesses of the new tariffs, based on UK exports to the US in 2024, would have increased total tariffs collected by the US from about $1 billion to $8.5 billion. If the UK does not comply with the security requirements of the UK-US EPD, then another $0.8 billion in tariffs would theoretically be added to UK exports to the US however it is very unlikely that any UK steel or aluminium goods would be exported to the US if they had a 50% tariff added to their import price.

The new tariffs will make most UK exports uncompetitive in the US compared to US domestic goods. The US and UK have similar wage costs, but the US has significantly lower energy costs, property, plant, and equipment costs, as well as lower taxes. The US federal corporate tax rate is 21%, while additional state corporate taxes vary from zero to 11.5%.[196] UK corporate taxes are 25%.

195 United States International Trade Commission. (2025). *Harmonized Tariff Schedule*. Available at: https://hts.usitc.gov/ (Accessed 9 July 2025).

196 Watson, G. 'Combined Federal and State Corporate Income Rates in 2022', *Tax Foundation*, 27 September. Available at: https://tax-foundation.org/data/all/state/combined-federal-state-corporate-tax-rates-2022/ (Accessed 9 July 2025).

During the Presidential election, Trump pledged to lower federal corporate tax rates to 15%. If this happens, in conjunction with the new tariffs, very few UK products will remain competitive in the US market. The US has traditionally been the UK's largest market for goods exports because of its low tariffs and lack of federal VAT. Some US states have retail sales taxes, but the highest rate is only 7.5%.

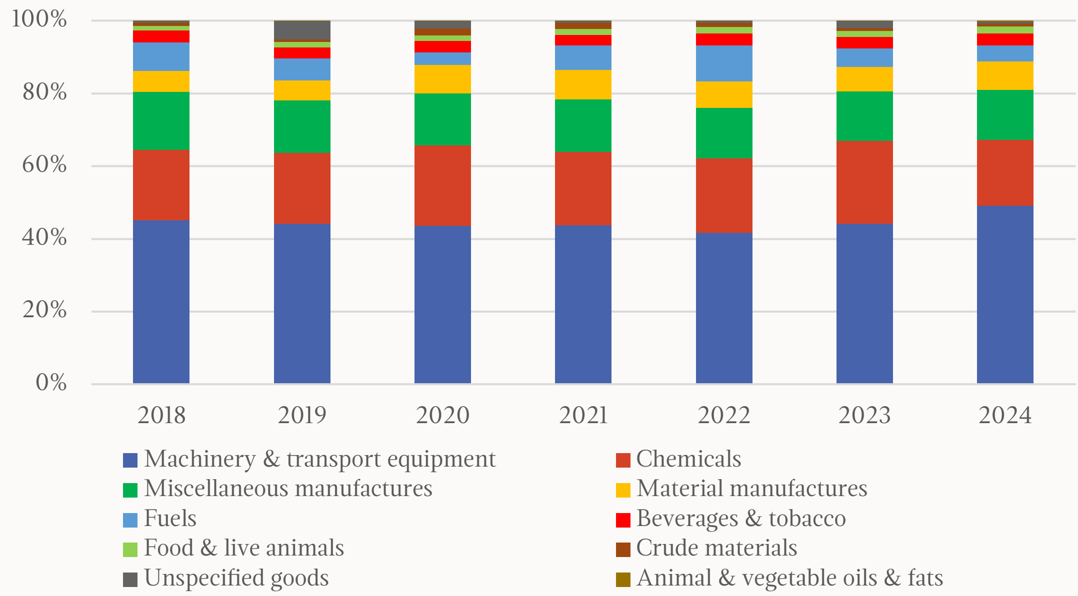
The effect of the new tariffs on UK manufacturing and exports will vary by the type of export; the importance of US trade to the exporter; whether the UK exporter already has manufacturing facilities in the US that could be expanded; the availability of competitive US domestically produced goods; and the availability of substitute goods from other US trading partners that manage to agree a trade deal with the US.

Eighty per cent of UK goods exports to the US fall into three sectors: *Machinery and Transport equipment*, *Chemicals* (including pharmaceuticals), and *Miscellaneous manufactures*. (*See Figure 9.*) The UK-US EPD predominantly covers goods in the first group, which will not only avoid the new US Section 232 tariffs but also have significantly lower tariffs than their European and Chinese competitors, at least at time of writing. However, most of the goods in the other two groups have not been so lucky. Most of the goods the US has exempted from the Section 232 and IEEPA tariffs are not large exports for the UK. The UK exports very little copper, lumber, or minerals. The UK exported only $500 million of the exempt products in *HS Chapter 84, out of a total of $14.7 billion in 2024.* This included $4.2 billion in aircraft engines and parts that are tariff free under the EPD, but the remaining $10 billion of goods will have 10% IEEPA tariffs applied to them. Similarly, the UK exported only $460 million of the exempt electronic devices in HS Chapter 85 out of total exports of $4.6 billion in 2025; the remaining UK exports in this chapter will have 10% tariffs applied to them.

In 2024, the UK exported just over $3 billion of products to the US covered by the Section 232 50% aluminium tariffs, $1 billion of products covered by the Section 232 50% steel tariffs, and $160 million of products covered by both. Three-quarters of the goods covered by the aluminium tariffs are aircraft parts and are tariff-free under the EPD. There are no significant UK exports under the new steel tariffs, which cover 266 different products at the 8-digit tariff code level. Almost all the goods covered by both the steel and aluminium tariffs are a single product (*HS 94032080*): metal furniture, other than for office, medical, surgical, dental, or veterinary use. Unless the UK can demonstrate to the USTR that UK Steel and Aluminium supplies originate from a secure source, approximately $1.9 billion of UK exports will be subject to 50% tariffs. Effectively, blocking all trade in these goods. While in total that doesn't amount to a lot, for some of the exported products, the US market buys between a quarter and a half of the UK's total exports of these products.

However, ultimately, the same outcome will occur now as it did during the Johnson administration in the 1960s. The US increased tariffs on imported trucks to 25% in response to the EU's introduction of non-tariff barriers that restricted US chicken imports. The world's truck manufacturers shifted some of their production to the US to circumvent these tariffs, and they never returned. This is precisely what President Trump aims to accomplish with his new tariffs.

Figure 9: *UK goods exports to the US by product sector*



Source: ONS, Trade in goods: country by commodity. Prices as of March 2025

The cost of the US's increased tariffs on UK GDP

The UK's main exports to the US within these broad industry sectors can be divided into three groups: precision machinery, including aircraft engines and parts; vehicles, including high-value cars; and oil-based plastics, chemicals and pharmaceuticals. The new US tariffs will affect UK exports to the US in these groups in different ways.

Precision machinery and aircraft parts

The first group (precision machinery) will mostly be subject to 10% tariffs, while some goods will incur 25% tariffs. Additionally, a few electrical and semiconductor goods will be exempt from the tariff increase.

Production is likely to remain in the UK until the companies that make these products can establish manufacturing facilities in the US. Although the entire UK production facility is unlikely to move to the US as only, 12% of UK exports of electrical machinery (*HS85*), and 16% of precision apparatus and instruments (*HS90*) go to the US.[197] The US is an important customer for UK precision machinery, but not the dominant customer.

Moving production to the US is not an outlandish idea; UK heavy machinery maker JCB already has production facilities in Savannah, Georgia, and is currently building a new facility in San Antonio, Texas, which will be the company's second-largest plant after its Rochester plant in the UK.[198] Moving production to the US would be the most sensible solution for UK companies, which

197 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c90%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1%7c1 (Accessed 9 July 2025).

198 JCB. (2024). JCB breaks ground at new $500 million North American factory, 4 June. Available at: https://www.jcb.com/en-us/news/2024/06/san-antonio-groundbreaking?form=MGOAV3 (Accessed 9 July 2025).

would otherwise lose their US export markets; however, this would also be detrimental to the UK's total trade balance, relative currency value, and tax revenues.

High-value cars and other vehicles

Products in the second group, high-value cars, may be less affected, as many of these cars are of a type where a higher price makes them more desirable and prestigious. Luckily, the UK-US EPD includes a TRQ of 100,000 cars, with a tariff totalling 10%. Any cars exported above this amount will be subject to a 25% tariff. In 2024, the UK exported 106,000 cars to the US, worth £9 billion, and accounted for 27% of the UK's total car exports (*HS87*).[199] The US imported more than twice the value of cars from the UK than the UK's second largest market, China. The UK exports approximately 80% of the cars it produces.

New imported cars are typically sold through a dealership network tied to the manufacturer, resulting in a retail price that is much closer to the import price than other consumer goods. The US's tariffs on cars imported from the UK will obviously make them more expensive. However, assuming a 30% dealer markup, if the dealer passes on the full tariff, then the car price would rise by 7% if the cars are imported under the TRQ or 17.5% if they are outside the quota, unless the dealer or manufacturer absorbs some of the cost.

The UK's luxury car models are likely to withstand this price increase, as they are purchased for their quality and prestige, rather than their price. However, even the 10% tariff increase could reduce US sales of cheaper UK models, assuming there are substitutable domestically produced cars available. Like most car manufacturers internationally, US manufacturers also rely on imported parts, so there may not be an immediate supply of US-made cars available to provide import substitutes. But this would only be a temporary shortage.

Other UK exports covered by the 25% vehicle tariff increase, such as UK dumpster exports to the US, worth $400 million in 2024, are likely to cease altogether.

Chemicals, plastics, and pharmaceuticals

Products in the third group are relatively homogenous: chemicals, pharmaceuticals and plastics. Total UK exports in this group, measured by the Standard International Trade Classification (SITC) 5, were worth approximately £55 billion in 2024, 20% of which was exported to the US, according to the ONS.[200] But exports to the US are more important for some sections of this group. For example, 26% of the UK's inorganic chemical exports (SITC 52) went to the US in 2024.[201] Companies producing these goods will have little choice but to move part of their production to the US.

Moving chemical and plastic production to the US would be advantageous for UK manufacturers,

199 ONS. *Trade in Goods: country-by-commodity exports*, February 2025, current prices (Accessed 11 April 2025).

200 ONS. *Trade in Goods: country-by-commodity exports*, February 2025, current prices (Accessed 11 April 2025).

201 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1 (Accessed 9 July 2025).

as the US also intends to encourage oil and gas drilling, a key input for many of these products, as well as an energy source used in their production. Companies that relocate their production would also benefit from the US's generous tax deductions for building new plants and equipment, and potentially a competitive corporate tax rate of 15% if they also relocate their company's headquarters to the US.

Almost all the UK's pharmaceutical exports to the US are blood products (*HS 3002*) or therapeutic products packaged for retail sale (*HS 3004*). Pharmaceutical products are presently tariff-free and exempt from the additional tariffs. However, the US is currently conducting a Section 232 review into imported pharmaceutical products and active ingredients. Should the US decide to impose tariffs on pharmaceutical imports, most UK pharmaceutical companies would likely relocate more of their UK production to the US, given their existing production facilities there. AstraZeneca has already decided to relocate a vaccine production facility to the US rather than build it in the UK.[202] Losing this business would devastate the UK's pharmaceutical sector and be another blow to the UK's GDP and trade deficit.

Aluminium and steel exports

The UK is a net importer of aluminium (*HS 76*), importing $6.2 billion[203] (£4.9 billion) in 2024 and exporting $3.7 billion (£2.9 billion) in total. However, its trade with the US is roughly even; the UK exported $9 million more aluminium products to the US in 2024 but imported $14 million more from the US in 2023. The UK's largest aluminium import supplier was Germany, which supplied 21% of the UK's imports in 2024, while the US supplied just 3%. Although 7% (£200 million) of the UK's total aluminium exports went to the US[204], in 2024, over 30% of the UK's total aluminium exports were scrap or waste aluminium, which is mainly exported to India, Hong Kong, or China for recycling. Therefore, the US is a more significant market for UK non-scrap aluminium exports.

The most valuable base aluminium products exported from the UK to the US were plates, sheets, and strips less than 0.2mm thick, but even these were only worth $67 million (£53 million). UK exports of this type of homogenous product to the US will not continue with 25% or 50% tariffs applied to them. The primary fuel used in the production of aluminium sheets is electricity. The UK's industrial electricity is already over three times more expensive than the average US industrial electricity, but over five times more expensive than the cheapest states, Louisiana and Oklahoma.[205]

Some UK exports of goods made from aluminium to the US are also covered by the 25% tariffs. Removing aircraft parts, in total, the UK exported just $0.7 billion of aluminium and aluminium products covered by the 25% tax. Most of the other 45 tariffed items are not significant UK exports to the US. The largest item was *HS 90319000: Measuring equipment parts*, with exports

202 Gross, A., Kuchler, H., and Parker, G. (2025). 'AstraZeneca ditches plan to build £450mn UK vaccine plant', *Financial Times*, 31 January 2025. Available at: https://www.ft.com/content/289dbaa2-f452-4aef-995c-bdbd5a79eea7?accessToken=z-wAGLQYBOwngkc8onbqi9FJK79OZXL29Wnnupw.MEQCIEC6rGD4hynOOYqzHZL-9hxOoCiM1t1gObYyCEctYPKWAiAnYvZZDh-vfcY6ejIPS76JVxMpkP_Ad5Y9C5qEefN-I6A&sharetype=gift&token=0bc49141-2709-4a9f-bf68-21ba754aa56c (Accessed 9 July 2025).

203 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c826%7c%7c%7c%7c76%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c2%7c1%7c1%7c1 (Accessed 9 July 2025).

204 ITC. *Trade Map*. Available at: https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c826%7c%7c842%7c%7c76%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1 (Accessed 9 July 2025).

205 US Energy Information Administration. (2025). *Table 5.6.A. Average Price of Electricity to Ultimate Customers by End User Sector, By State (Cents per Kilowatt hour)*. Available at: https://www.eia.gov/electricity/monthly/epm_table_grapher.php?t=epmt_5_6_a (Accessed 9 July 2025).

of less than $100 million. However, the US again accounted for 20% of total UK exports.[206]

The UK imported *HS 72 Iron and Steel* worth $7 billion in 2024 and exported iron and steel worth $7.4 billion. However, like aluminium, the UK's largest steel export is scrap iron and steel worth $3.3 billion in 2024. Scrap iron and steel are mainly exported to countries with cheap power for recycling, such as Egypt, Turkey, and India. Excluding scrap iron and steel, the UK is a large net importer. However, the UK's steel trade balance is reversed with the US, with UK exports of *Iron and steel (HS 72)* to the US worth $352 million in 2024, while imports from the US were worth only $92 million. Two-thirds of UK steel imports come from EU countries. In 2024, India was the UK's largest non-EU steel supplier, but even then, it supplied the UK with imports worth only $536 million.

The UK exports a greater value of *Articles of iron and steel (HS 73),* these were worth $7 billion in 2024, 10% of which went to the US. While only 5% of the UK's $11 billion imports of *HS 73* are imported from the US, compared with over 20% imported from China, the UK's largest supplier. Products in *HS 73* are wholly made of iron and steel, such as screws, bolts, pipes, tubes and wires, while products in *HS 72* are basic steel products, including scrap steel, steel ingots, sheet steel, bars and rods.

The steel products subject to the Section 232 tariffs by the US are mostly in the HS 72 and HS 73 tariff codes, with the addition of 12 other products made of steel. In total, the UK exported $1 billion of these products to the US in 2024. None of the taxed steel products are large exports for the UK. The largest is *HS 84313100 Part of lifts, skip hoists or escalators, n.e.s.,* with exports to the US in 2024 worth $55 million. However, exports to the US were 31% of total UK exports in this sector in 2024.

The UK has a limited capacity to produce virgin steel and must import both the iron ore and metallurgical coal needed to make steel. The UK's Port Talbot blast furnace closed last year,[207] and the UK's sole remaining blast furnace at Scunthorpe is owned by the Chinese company Jingye, although the British Government has recently taken control of the steelworks to prevent Jingye closing the blast furnace. Both steel mills are seeking government subsidies to convert to electric arc furnaces for recycling steel,[208] but as mentioned above, UK industrial electricity is too expensive for its recycled steel to compete with US production.

The UK-US EPD would remove the 25% Section 232 tariffs on UK exports of steel and aluminium products to the US, provided that the UK can produce these goods with steel and aluminium

206 ITC. *Trade Map*. Available at: https://www.trademap.org/Country_SelProductCountry_TS.aspx?nvpm=1%7c826%7c%7c%7c%7c9031%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c2%7c1%7c1%7c1 (Accessed 9 July 2025).

207 TATA Steel. (2024). *Closure of Blast Furnace 4 but green steel project will ensure next generation of steelmaking*, 30 September. Available at: https://www.tatasteeluk.com/corporate/news/closure-of-blast-furnace-4-but-green-steel-project-will-ensure-next-generation-of-steelmaking?form=MG0AV3 (Accessed 9 July 2025).

208 Young, J. (2025). 'Unions seek £200m from ministers to safeguard Scunthorpe steelworks as blast furnaces face closure', *Business Matters*, 20 February. Available at: https://bmmagazine.co.uk/news/unions-seek-200m-from-ministers-to-safeguard-scunthorpe-steelworks-as-blast-furnaces-face-closure/?form=MG0AV3 (Accessed 9 July 2025).

imported from a secure supplier, most likely the US. The EPD also refers to the ownership of UK steel and aluminium production facilities, but it is unclear whether the British Government taking control of the Scunthorpe steelworks would meet this requirement or if the Government must find a secure buyer for the plant.

However, if the US is concerned about the size of UK tariffs and import VAT applied to US imports, such concerns will be heightened in 2027 when the UK's proposed CBAM will also be applied to imported *Iron and steel*, *Articles of iron and steel*, and *Aluminium* as well as to imported *Fertiliser*, *Glass*, *Ceramics*, *Hydrogen* and *Cement*.[209] Given that aluminium CO2 emissions are 15 tonnes per tonne of material produced.[210] The UK's proposed CBAM would have added roughly 15% to the import price of aluminium using the July 2024 average ETS price of £42 per tonne. Similarly, the UK's proposed CBAM would have added roughly 5% to the imported price of new (non-recycled) steel, as steel production emits 2.32 tonnes of CO2 for every tonne of steel produced[211].

Shortly after the UK-US EPD was agreed, the UK and EU announced that they would 'Reset' their relationship, including the UK joining the EU's Emissions Trading Scheme (ETS) and the EU's CBAM. This would make any imports of steel and aluminium products from the US more expensive. The EU's Carbon price is 44% more expensive than the UK's, the UK imports 200% to 350% more CBAM goods from the EU than it exports to the EU, and the EU intends to extend the scope of its CBAM to cover industrial heat generation and international maritime transport.

If the UK proceeds with this Reset, it will be unable to comply with the requirements in the UK-US EPD, and therefore, UK car exports, steel, and aluminium exports will all be subject to 25% and 50% US tariffs. This would cause exports of aluminium and steel products to the US to collapse, with the manufacturers who make them moving production to the US, which would reduce UK GDP, balance of payments, and its tax receipts.

209 UK Department of Energy Security & Net Zero. *Factsheet: UK Carbon Border Adjustment Mechanism.*

210 International Aluminium Institute. (n.d.). *Aluminium industry reports decline in greenhouse gas emissions.* Available at: https://international-aluminium.org/aluminium-industry-reports-decline-in-greenhouse-gas-emissions/ (Accessed 9 July 2025).

211 World Steel Association. (2022). *Sustainability performance of the steel industry 2003 to 2021.* Available at: https://worldsteel.org/wp-content/uploads/Sustainability-Indicators-2022-report.pdf (Accessed 9 July 2025).

Appendix 2: Consumption tax differential between the US and the UK

The UK's tariffs and other import charges on the UK's main imports from the US are listed in Table 6 below. The US does not add VAT to imported or domestically produced goods at the federal level. Although some US states add sales taxes, these are only applied to the final retail sale to the consumers and not added at every stage of the production and distribution process. US sales taxes are comparable to the UK's reduced rate of VAT applied to essential goods such as energy. The highest US sales tax is 7.5% and is applied by the state of California.[212]

Table 6: *UK tariffs, Excise Duties and Import VAT applied to the main US imports*

UK import charges on the largest 25 US exports to the UK in 2023, by US$ value			
4 Digit HS Code	**Product description of the most common import in the HS code**	**UK tariff range**	**Import VAT, Climate Change Levy and Excise Duty**
7108	Gold, unwrought or semi-manufactured	0%	VAT 20%
2709	Crude Petroleum oils	0%	VAT 20%
2711	Liquid Natural Gas (LNG)	0%	LNG 0% VAT + £3.175/100kg CCL
3004	Medications in measured doses or packings for retail sale	0%	20%
2710	Refined Petroleum oils	0% - 20%	Light Fuel Oils VAT =20% + £0.5295/litre Excise duty
9701	Paintings, drawings and similar decorative plaques	0%	20% or 5%
3002	Immunology products, blood products, anti sera and vaccines	0%	0 to 20%
2933	Heterocyclic compounds with nitrogen hetero-atom[s] only	0%	20%
8517	Machines for reception & transmission of voice, images or data	0%	20%
8471	Magnetic or optical readers or processing units for computers	0%	20%
4401	Fuel wood	0%	20%
8703	Motor cars	10%	20%

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7112	Waste and scrap of precious metal	0%	20%
9018	medical, surgical, dental or veterinary apparatus	0%	0 - 20%
7113	Articles of jewellery made of precious metal	2% to 4%	20%
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats	2%	20%
7102	Diamonds, worked, but not mounted or set	0%	20%
3304	Skincare and make-up preparations	0%	20%
8411	Turbojets, turbopropellers and other gas turbines	0%	0 to 20%
2207	Ethyl alcohol used to produce fuels for motor vehicles	£8.5/hl to £16/hl	VAT 20%, Excise £31.64/%vol/hl
8542	Electronic integrated circuits; parts thereof	0%	20%
8108	Articles made of Titanium	0% to 6%	20%
8421	Filtering or purifying machinery and parts, for liquids or gases	0%	20%
8537	Apparatus for electric control or the distribution of electricity	0% to 2%	20%
8807	Parts of aircraft and spacecraft	0%	20%

For many imported consumer goods, tariffs will be a small part of their eventual retail price. Warehouse and shop rents, wages, inventory costs, and distribution costs make up a much larger portion of the sales price than even the import cost of the good. This is, however, not true of imported cars, where car manufacturers often sell their cars through their own distribution chains, cutting out the middleman, so the retail price is closer to the import price.

The absence of 20% VAT can make a UK-manufactured car cheaper in the US than in the UK. For this reason, the US perceives the UK and other EU countries as dumping their cars in the US market. The UK and EU believe that if they didn't add the same VAT to imported goods as they do to domestic goods, it would give an unfair advantage to imported goods.

Appendix 3: Tables 1 and 2

Table 1: *UK tariffs applied to US exports to the UK*

Largest 25 US exports to the UK in 2023, by US$ value			
4 Digit HS Code	**Product description of the most common import in the HS code**	**UK tariff range**	**Equivalent ad valorem tariff faced by US imports**
7108	Gold, unwrought or semi-manufactured	0%	0%
2709	Crude petroleum oils	0%	0%
2711	Liquid natural gas (LNG)	0%	0%
3004	Medications in measured doses or packings for retail sale	0%	0%
2710	Refined petroleum oils	0% to 20%	2%
9701	Paintings, drawings and similar decorative plaques	0%	0%
3002	Immunology products, blood products, anti sera and vaccines	0%	0%
2933	Heterocyclic compounds with nitrogen hetero-atom[s] only	0%	6%
8517	Machines for reception & transmission of voice, images or data	0%	0%
8471	Magnetic or optical readers or processing units for computers	0%	0%
4401	Fuel wood	0%	0%
8703	Motor cars	10%	10%
7112	Waste and scrap of precious metal	0%	0%
9018	Medical, surgical, dental or veterinary apparatus	0%	0%
7113	Articles of jewellery made of precious metal	2% to 4%	3%
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats	2%	2%
7102	Diamonds, worked, but not mounted or set	0%	0%
3304	Skincare and make-up preparations	0%	0%
8411	Turbojets, turbopropellers and other gas turbines	0%	1%
2207	Ethyl alcohol used to produce fuels for motor vehicles	£8.5/hl to £16/hl	24%
8542	Electronic integrated circuits; parts thereof	0%	0%
8108	Articles made of Titanium	0% to 6%	65
8421	Filtering or purifying machinery and parts, for liquids or gases	0%	1%
8537	Apparatus for electric control or the distribution of electricity	0% to 2%	2%
8807	Parts of aircraft and spacecraft	0%	1%

Table 2: *US tariffs applied to UK exports to the US before the new tariff regime*

Top 25 UK exports to the US in 2023, by US$ value			
4 Digit HS Code	**Product description of the most common import in the HS code**	**US general rates of duty faced by UK exports**	**Equivalent ad valorem tariff faced by the United Kingdom**
8703	Motor cars	2.50%	2.50%
8411	Turbojets, turbopropellers and other gas turbines	0 - 2.5%	0%
3004	Medications in measured doses or packings for retail sale	0	0%
3002	Immunology products, blood products, anti-sera and vaccines.	0	0%
8807	Parts of aircraft and spacecraft	0	0%
7108	Gold, unwrought or semi-manufactured	0 - 4.1%	2%
2933	Heterocyclic compounds with nitrogen hetero-atom[s] only	0 - 6.5%	4%
2710	Refined petroleum oils	0.06% to 7%	1%
2937	Hormones, prostaglandins, thromboxanes and leukotrienes, natural or reproduced by synthesis	0%	0%
2208	Whiskies, gin and beer made from malt	0% - 23.7c/ pf.liter	0%
7110	Platinum and rhodium, in unwrought or powder form	0%	0%
9027	Instruments and apparatus for physical or chemical analysis	0% to 1.2%	0%
8427	Self-propelled trucks fitted with lifting or handling equipment, not powered by electric motors	0%	0%
9701	Paintings, drawings and similar decorative plaques	free	0%
9021	Orthopaedic and fracture appliances; artificial body parts; hearing aids and other appliances which are worn, carried, or implanted in the body	0 to 2.5%	0%
8408	Diesel or semi-diesel engines not used for propulsion of vehicles or boats	0 to 2.5%	1%
8704	Dumpsters for off highway use	0 to 25%	22%
8708	Parts and accessories for tractors, motor vehicles, cars and trucks and special purpose motor vehicles	0 to 2.5%	1%
8429	Self-propelled bulldozers, graders, levellers, excavators, shovel loaders, tamping machines and road rollers	Free	0%
9018	medical, surgical, dental or veterinary apparatus	Free	0%
8474	Machinery for sorting, screening, separating, washing, crushing or grinding solid mineral substances	Free	0%
2922	Oxygen-function amino-compounds	free to 6.5%	5%
8421	Machinery and parts for filtering or purifying liquids or gases	free to 2.5%	0%
8481	Appliances for pipes, boiler shells, tanks, vats or the like	free to 5.6%	3%
8471	Processing units for computers		0%

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