NewStatesman

Spotlight

THE US AND THE UK: TRADE AND THE SPECIAL RELATIONSHIP

Antony Phillipson / Rona Fairhead / Nigel Sheinwald

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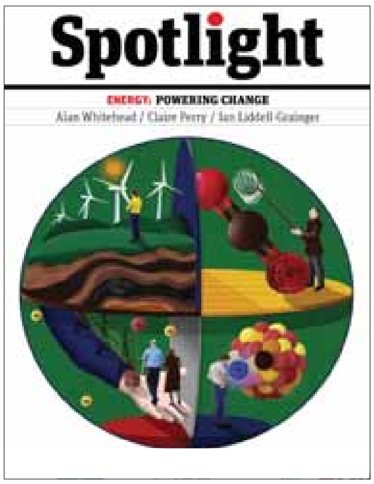

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A bridge built by business

It appears that David Davis was confirming his reputation for academic excellence when he argued, in January 2017, that "we can get a free trade and customs agreement concluded before March 2019". The UK cannot negotiate or ratify new trade deals until it is either in a transition period, or out altogether.

But was UKIP's Gerard Batten being as thick as mince when he claimed, a month later, that the UK's trading relationship with the EU could be "sorted out in an afternoon… over a cup of coffee"? Was the trade secretary, Liam Fox, belching the same well-chewed Brexit beef when he told the *Today* programme in July 2017 that a free trade agreement with the EU "should be one of the easiest in human history"? Perhaps not. Not because Brexiteers are experts in international trade (let's not forget Dominic Raab, who admitted he "hadn't quite understood… if you look at how we trade in goods, we are particularly reliant on the Dover-Calais crossing"), but because for the most part, trade isn't up to them.

The UK imported £662 billion in goods last year. The world's fifth-largest economy is a huge market that no country wants to lose. And while politicians control trade at the regulatory level, the number of BMWs bought in England or the amount of Cheddar sold in France is mainly up to the businesses prepared to take the risk of making and exporting those goods, and the consumers willing to fork out for them. These decisions are not generally ruled by politics.

This is particularly true of the trading relationship between the US and the UK, in which many of the other barriers to doing business – language, cultural differences, and the tastes and interests of consumers – exist to a far lesser degree, or not at all. Liam Fox was never going to have 40 trade deals ready to go, as he promised the Tory conference in 2017, "one second after midnight in March 2019", but with the right political will, and with the ingenuity, preparation and pragmatism of the businesses whose money will actually be on the line, transatlantic trade may be the crucial first step for Britain to resettle itself in the global economy.

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***Spotlight* is the British Society of Magazine Editors' 2017 Launch of the Year.**
First published as a supplement to the *New Statesman* of 15 March 2019. Registered as a newspaper in the UK and US. The paper in this magazine is sourced from sustainable forests, responsibly managed to strict environmental, social and economic standards. The manufacturing mills have both FSC and PEFC certification and also ISO9001 and ISO14001 accreditation.

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News

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US trade deficit rises to record high

Will Dunn

The United States imported $878.7bn more goods from other countries than it exported in 2018, according to the US Census Bureau, the largest trade deficit in the country's history. America's trade deficit with China was $419.2bn for the year, also the highest on record.

The results have been widely reported as the failure of Donald Trump to deliver a key promise of his 2016 campaign, when he offered voters "a drop like you've never seen before" in the disparity between imports and exports. While the simplistic explanation that exporting more would mean jobs for American workers appealed to voters, the trillion-dollar programme of tax cuts the Trump administration passed in December 2017 has created a short-term spending surge that may ultimately stimulate foreign exporters more than the domestic economy in the US. Meanwhile, as the global economy slows – in part due to the steep tariffs Trump has placed on goods from China and the EU – American goods have become less able to compete on price.

In March 2017, Trump tweeted: "When a country (USA) is losing many billions of dollars on trade with virtually every country... trade wars are good, and easy to win."

UK and US sign Mutual Recognition Agreement

Will Dunn

Britain's ambassador to the US, Sir Kim Darroch, and deputy US trade representative CJ Mahoney signed the Mutual Recognition Agreement on Conformity Assessments in Washington last month, rolling over into US-UK trade relations the agreement on technical regulation of goods that currently exists between the US and the EU.

The agreement means that goods that are subject to technical regulations, such as pharmaceutical products or electronics, can be tested and registered as compliant before they leave their country of origin. This allows for faster, more efficient trade in goods that are often of significant value. The government has said that the UK-US MRA will cover an estimated £8.9bn in UK exports.

The MRA is one of seven so far signed between the UK and other countries and regions including Australia, Israel, Chile and Eastern and Southern Africa.

Budget US airline looks to London

Rohan Banerjee

New York-based budget airline jetBlue is considering entering the European flight market for the first time. Currently, jetBlue operates flights between the United States, the Caribbean and Latin America, but is weighing up the business case for new routes to London.

The company's chief executive, Robin Hayes, labelled some of the prices for transatlantic flights as "obscene" last September, when he spoke at the Aviation Festival. He said: "When we see that, we know that we can do that a lot cheaper."

And in January, Hayes confirmed that jetBlue has an option to convert some of the A321 neo aircraft that it has ordered from European manufacturer Airbus to the long-range version of that model. A spokesperson for jetBlue said: "Potential routes to Europe could provide us an opportunity to grow our focus cities of Boston and New York as we consider the best use of our aircraft from a margin perspective in those cities."

SHUTTERSTOCK / SURIEL RAMZAL

Cardiff University wins NFL contract

Rohan Banerjee

The helmets worn by America's most popular and iconic sports teams may soon use technology developed in the United Kingdom.

Scientists at Cardiff University have been awarded a £90,000 contract by the National Football League (NFL) to manufacture C3, an "elastic-based material" that is produced via 3D printing and has significant energy-absorption capabilities. C3 stiffens under collision force, whatever the level of impact, before returning to its original shape. Padding made with C3 can be moulded around the inside of a helmet. Cardiff's Dr Peter Theobald explained that typical NFL helmets "run out of capacity to absorb energy", as they degrade over time, but he claims C3 is able to absorb more energy as force rises.

The(NFL) is exploring new technologies to improve the safety of its equipment, and developments in helmet and padding design have led to a drop in cases of concussion since 2018 by 24 per cent.

British tech firms expand into US

Oscar Williams

Two British startups have raised a total of nearly £50m to fund major expansions into the US market. Cyber security vendor Tessian raised £32m last month in a round led by a US-based investment fund, Sequoia, while blockchain startup Nivaura raised £15m in a seed extension round.

Tessian, which boasts clients in the legal and financial sectors, has developed machine learning software to reduce vulnerabilities surrounding emailing. Its software analyses historical email data to monitor user behaviour. Matt Miller, partner at Sequoia, said: "We are enthusiastic to partner with Tessian because we believe in this team and its ability to leverage machine learning to help enterprises to protect their people."

Nivaura, meanwhile, has built a platform on distributed ledger technology to automate the issuance of bonds, equities and derivatives. The funding round, led by the London Stock Exchange Group, will help the startup to grow its team and expand into the US and Asia. Nikhil Rathi, the chief executive of the London Stock Exchange, commented: "The investment strengthens our existing relationship with Nivaura and underlines the Group's partnership approach in innovating to support our clients in accessing global investment pools."

SHUTTERSTOCK / NESTOR RIZHNIAK

US manufacturer to invest £12m in Northern Ireland

Rohan Banerjee

Terex, an American manufacturer specialising in material handling and waste disposal technologies, has started constructing a new £12m factory in Derry, Northern Ireland. The company, which already employs 1,500 people across eight other sites in Northern Ireland, also has a UK headquarters in Coventry.

Terex is now building a 105,000 sq ft production facility at Derry's Campsie Industrial Estate. It estimates that once finished the facility will employ 100 people in a variety of production, management and research roles, with annual salaries totalling approximately £2m. Kieran Hegarty, Terex's president, predicted that the facility would be up and running "in the next three to four years".

Invest NI, Northern Ireland's regional economic development agency, is supporting the project, by covering close to £1m of the costs.

Derry's mayor John Boyle commented: "These are high-quality jobs that reflect the commitment of Terex to the region and its confidence in the city as a good place to do business."

As Her Majesty's Trade Commissioner for North America and Consul General in New York, Antony Phillipson leads the team that is preparing the way for Britain's most important post-Brexit relationship. He spoke to Will Dunn

The diplomat behind the deal

"The UK and the US," Donald Trump announced to the press on 15 February, are "agreeing to go forward and preserve our trade agreement… we expect that the UK will be very, very substantially increased as it relates to trade with the United States."

A week later, many of the same reporters looked on in shock as Trump petulantly insisted that the Memorandum of Understanding that had just been agreed by his Trade Representative, Robert Lighthizer, and the Chinese delegation, didn't "mean anything". The Chinese Vice-Premier, Liu He, laughed openly and was heard to say "okay" as Lighthizer struggled to persuade the President that an MOU – the treaty or trade agreement that often precedes a formally ratified settlement – between the world's two largest economies was worth announcing.

This is the challenge that faces British diplomats and trade negotiators in the US. Britain must renegotiate its trade relationships after it leaves the EU, and America is the UK's biggest single-nation trading partner. However, they cannot start actually negotiating for this deal until the withdrawal agreement has been passed – or Britain leaves with no deal. In either case, Britain will need to complete a deal vital to its economy as quickly as possible, and it will need to make this deal with an administration many view as the most protectionist, aggressive and temperamental in living memory.

Antony Phillipson refuses to be daunted. "One thing I would point out," he says, "is that it's not exactly as if we're starting from scratch. We're the biggest investors in each other's countries already. Each day, a million Brits go to work for American-owned companies in the UK, and a million Americans go to work for British-owned companies in the US. This is a highly integrated relationship."

In person, Phillipson certainly appears unflappable. Tall, bespectacled, speaking quickly but quietly, he is the archetypal British diplomat – he is in fact so diplomatic that he refrains from describing himself as a diplomat, in case the Foreign Office would be offended – and he is faultlessly on-message about the opportunities and the imperatives for a Britain that is newly isolated (or newly global, depending on how you voted). Phillipson began his career at what was then the DTI, working in private office for four trade secretaries (Ian Lang, Margaret Beckett, Peter Mandelson and Stephen Byers) before moving to Washington to work in trade policy in the US. He has worked as Tony Blair's private secretary for foreign affairs, the head of the Foreign Office's Iran department, and the High Commissioner of Singapore. His autobiography would make interesting reading, although he would probably be too diplomatic to write it.

In 2017, Phillipson was one of the nine new trade commissioners appointed by the Trade Secretary, Liam Fox, to create opportunities for British businesses around the world. "In the US," he explains, this job involves "a very strong focus on preparing for an FTA [free trade agreement]."

Five times since its launch in 2017, the UK-US Trade and Investment Working Group has brought together large delegations from both countries – "100-

BRITISH HIGH COMMISSION SINGAPORE

plus officials, across Whitehall departments and across the US system" – to discuss global challenges that will affect both nations, the immediate opportunities and practical issues for companies large and small doing business in the US, and trading agreements between the two countries. Like many Brexit issues, this is not as simple as some Leavers had hoped. "There's often this thing that the US only trades with the EU on WTO terms – so what would be the problem if we just trade on them? But the fact is that there's this web of agreements that govern EU-US economic interaction," Phillipson explains, pointing to the agreements on aviation, civil nuclear energy and wines and spirits that have already been rolled over. Last month, Liam Fox told the Commons that 43 of 109 existing EU trade measures would be maintained by the UK.

To grow trade in a way that will "deepen and strengthen" valuable sectors of the economy, however, will require an FTA. Phillipson says the work for producing an FTA begins by looking at "what type of thing has featured in previous US FTAs". While Trump described NAFTA, the agreement between the US, Canada and Mexico signed by Bill Clinton in 1993, as a "disaster" that cost the US "millions of jobs", the US-Mexico-Canada Agreement (USMCA) with which it has now been replaced "is the new template for US trade agreements in today's world", according to Phillipson. "And I think that's actually quite helpful," he says, "because it gives us a framing point."

The government has to be careful to avoid actually negotiating for an FTA with the US, or anyone else, until Britain is either in the implementation period created by a withdrawal agreement, or out of the EU with no deal. But there is work that both governments can do in advance. The UK has already run a public consultation on "what people would want to see in an FTA, and what people would not want to see in an FTA", and "at some point, on our side, [there] will be a public statement that sets out what our negotiating objectives are". Meanwhile, the US government has also begun the process to get approval from Congress for its own negotiating objectives.

"At that point," Phillipson says, "people will be able to look at two documents - their objectives and our objectives. And that will then go to a broad question: are there things they want from us that may be difficult?" Inevitably, thanks to extensive coverage in the British press, this will involve the question of whether British people want to eat American chicken.

"It's been a constant," Phillipson says of the chlorine-washed chicken debate, "not just in this context, but in the previous EU-US TTIP talks." Farming in the US is not regulated in the same way as it is in the EU, and some practices – such as washing chicken carcasses with chemical solutions to remove bacteria, or the use of growth hormones in beef farming – that are widely used in the US are banned in the EU for safety and animal welfare reasons. Phillipson points out that Britain will need to find consider its position with regard to both the US and the EU. "Chicken and beef are examples of where there is a difference in regulatory approach, at the minute, between the EU and the US, and in time the decision will need to be made between the UK and the US, which will be a function of the decision we choose to make about our alignment with the EU. So it's a three-way dynamic."

Phillipson acknowledges that this will make things more complicated, but he says it won't come down to choosing one trade bloc or the other. "There will be areas where we will choose to align with the EU, because sovereign choice is in our economic interest. That does not mean there will be nothing we can do with the rest of the world, including the US."

Nor is it solely for governments to decide what their citizens buy. For example, the first trade deal struck by the Trump administration was with South Korea. Under the new "KORUS" deal, US car manufacturers can now export up

CHARLES MCQUILLAN / GETTY IMAGES

to 50,000 cars (which do not meet Korean safety standards) every year. But Koreans actually buy fewer than 20,000 American cars a year, and this is not because of tariffs, but because Koreans – like Europeans – overwhelmingly prefer the smaller, more efficient cars made in their local market. Phillipson agrees that "the case for trade liberalisation is that it gives more choice to consumers, in terms of variety of products and what they want to pay for it. It is the same for business." There is, he points out, "plenty of American produce that we import now," which is not affected by the UK's current membership of the EU and its laws on animal welfare and consumer safety. "The dynamic in the negotiation will be – where are the priorities on the US side for future

A hard border in Ireland could have ramifications for a UK-US trade deal

The USMCA is likely to be the template for future deals

market access, and how does that fit with UK sovereign choice?"

The other aspect of a US trade deal that may inflame the British public is what it might mean for the NHS. The relationship between US companies and Britain's health service was a major factor in public opposition to the Transatlantic Trade and Investment Partnership (TTIP) in 2015. Phillipson says his team were "puzzled" by this reaction because "we had always made clear throughout those negotiations that the NHS was off the table".

He does, however, admit that this is probably a goal for the US. "Do we think that the Americans are going to want to look for increased opportunities to invest in, or to open up, UK public services? Yes, I think they will." The key, he says, is to go into negotiations with a clear-eyed sense of what both countries want.

Phillipson is preparing to make those negotiations during an implementation period, which all but the most fervent Brexiteers hope will be the mechanism for Britain's exit from the EU. But he has increasingly been forced to consider the alternative. "At the beginning of this year, as the risk of no deal went up following the rejection of the Withdrawal Agreement, we thought – okay, we must now prioritise in the immediate term the rollover of agreements and no-deal contingency planning. That's not because we wanted no deal", he qualifies, "but we have to be prudent." This has included, he admits, the need for staff who were "focused on the FTA" to be "moved over to no-deal planning."

Phillipson says it's simplistic to say that a no-deal Brexit would force the UK into a weak negotiating position – "we would still need to be able to do a deal that enjoyed parliamentary support", he points out – but he also says it's not what America wants, either. A key Brexit objective for the US is "minimising the disruption to their existing massive investment in the UK".

The other factor that may become pertinent to a US trade deal is the Irish border. "There is a big Irish-American caucus in Congress," Phillipson explains, "and recently they wrote to the Prime Minister and the Taoiseach, saying, can we just point out that we really care about the Good Friday Agreement and the investment that the US has made in delivering 20 years of peace – so watch this, please. They don't like the idea of no deal, because of what that potentially means for the border."

Despite the current uncertainty, Phillipson maintains that he and his team are "very confident and very positive about the prospect of an FTA." As a trade negotiator and (Foreign Office nomenclature permitting) a diplomat, he is naturally predisposed to seeing both sides, to keeping things on the table. In the era of political table-flipping, these are important skills to have.

The needs of businesses must be met for trade to thrive

Duncan Edwards, chief executive of BritishAmerican Business, explains why clarity over Brexit and governments that listen to businesses are needed to maintain and grow the world's most successful trading partnership

SHUTTERSTOCK/ERIC LIMON

On 8th May, BritishAmerican Business (BAB), the trade organisation for US-UK trade and investment, will present its inaugural Transatlantic Growth Awards to 30 British and American companies. These awards will recognise businesses, from every industry and of every size, that have made a major commitment to the other market during the last year, either in the form of a capital investment or jobs. Discussion of trade policy is important, but what actually happens on the ground, decisions by companies to take risks, invest capital and hire people, are at the heart of successful international trade and investment.

Of course, there is nothing new about American companies investing in the UK or British companies building their businesses in the States; in fact, data suggests that more capital has been committed from both countries into the other than in any other bilateral relationship. There is more than a combined trillion dollars of capital that has been put to work by businesses over the years and far more than a million people in each market work for businesses owned by companies from the other. This combination of investment capital and jobs (together with a vibrant two-way trade in goods and services) makes the US-UK economic corridor the most successful in the world.

So why now? At a time of uncertainty over the UK's future trade relationship with the EU, and lots of debate about the arcane intricacies of trade policy, it is worth reminding ourselves of what is actually happening on the ground. Ambitious companies with entrepreneurial leaders and willing shareholders are always looking to expand, and when international growth is on the agenda, for British and

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American businesses, the natural first place to look is at each other.

For British companies, the US has always represented market scale. The attraction is obvious – the largest economy in the world, a common language and almost familiar culture. A reliable legal system and a broadly liberal market economy all make the USA hugely attractive and entrepreneurial Brits have been doing business there successfully for two hundred years. From small start-ups in biotech or fintech to giant industrial and financial enterprises, the range and quantum of British businesses prepared to make the decision to invest in the States is phenomenal. Other markets may offer more rapid GDP growth but nowhere matches the combination of market scale and relative market predictability of America.

For American companies, the UK has been the natural first market to look at and the default choice for a European hub. Cultural and language familiarity, a helpful time zone and good transport links, legal certainty and a broadly business friendly environment all help; couple these with an educated and skilled workforce for all sectors of employment, liberal labour regulations that are a lot less scary for US owners than in most of the EU, reasonable corporate tax rates and a country where American management feel comfortable living are all factors behind this great inward investment success.

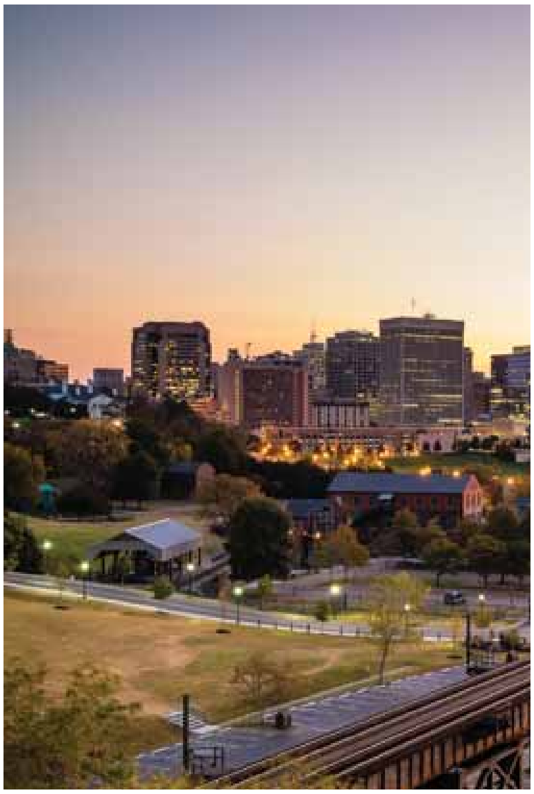
That the UK has been a bridge into the EU single market has also clearly been a huge factor in the capital allocation decision-making of large US corporates and the uncertainty over the UK's future trading relationship with the EU is deeply unhelpful. At the time of writing there is no certainty about what will happen on March 29th and even if (as we expect) some version of the withdrawal agreement is finally approved, a further 21 months of debate and negotiation await us. Experience suggests that, whether Brexit is hard, soft or *al dente*, the negotiation of the future relationship will be difficult, slow and only resolved, if at all, at the last possible moment. Whilst all the other positive things about the UK remain in place, this uncertainty about free and open access to the EU market is causing delay to investment decisions, especially for manufacturing companies.

But, as our awards will show, the attractiveness of each of these great markets to businesses from the other remains very strong and the pipeline of future investment, much already announced, is healthy. Against this background, there is an opportunity to build an even stronger transatlantic trade and investment environment and with active support from the leadership in both countries, this should be a high priority for trade negotiators, government ministers and business.

The good news is that work has already started in London and Washington. The bilateral Trade and Investment Working Group of officials from the UK and US has met five times since the referendum, and current agreements governing trade between the US and EU are in the process of being re-signed between the US and the UK, ensuring continuity of business in the event of a hard Brexit. Next will come the negotiation and with the work done previously on the Transatlantic Trade and Investment Partnership (TTIP) we have a good place to start and a clear understanding of where conflicts might arise.

Now is the time for businesses, and those of us who represent them, to do the hard work talking to the US and UK governments at a central and local level. We need to remind legislators why business matters, as the source of the majority of jobs and driver of prosperity in each of these markets. If we do this well, there is no reason why the future of the US-UK trade and investment relationship will not be stronger in the future than it is today.

UK businesses need government support as they tap into US markets, writes Rona Fairhead, Minister of State for Trade and Export Promotion at the Department for International Trade



Embracing ambitions across the pond

There is no question that the United States is a major trade and investment partner for the United Kingdom; it is both our largest single trading partner and largest single export market, outside the European Union, accounting for £114bn in the year to September 2018. From goods such as vehicles, machinery and pharmaceuticals to services including financial, transport and insurance, a significant proportion of our goods and services make their way across the Atlantic every year.

The numbers speak for themselves. In 2017, the UK attracted £351bn of Foreign Direct Investment from the US, 19.5 per cent higher than in 2016. In the same year, the UK and US had a combined £609bn's worth of stock invested in each other's economies, and there are currently 35,600 UK businesses exporting goods to the US.

There is an underlying assumption that the US and UK have roughly the same kind of culture, especially in business. When you view us both from abroad, that isn't too surprising. We are, by a wide margin, the two countries with the most native English speakers, our economies have a similar structure – primarily services-based – and we both have similar attitudes towards business and regulation, ranked eighth and ninth respectively in the World Bank's Ease of Doing Business Rankings. Add to that historical links and a host of intangible similarities, and take into account the sheer size of the US and its easy access to finance, and you can understand why British firms are so successful exporting there.

Yet whilst we do well, there is still more to be done. At the Department for International Trade, we often help businesses who have tried two or three times to break into the US on their own.

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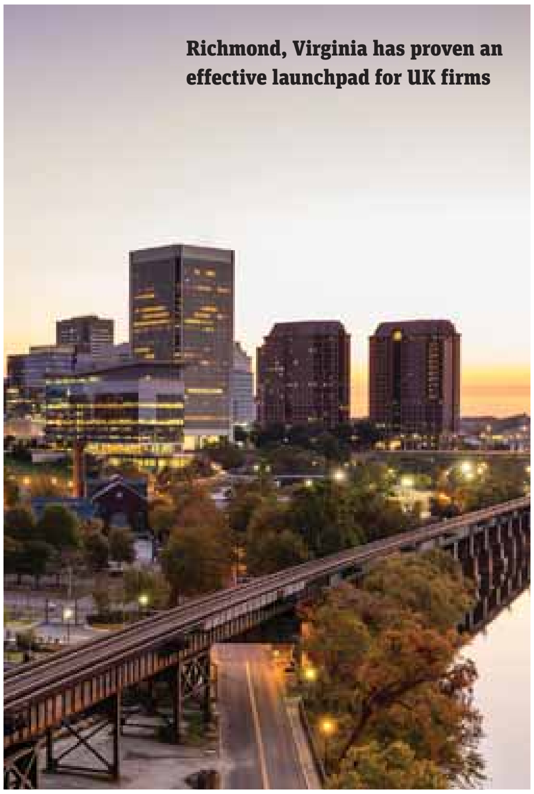

Richmond, Virginia has proven an effective launchpad for UK firms

35,600 UK firms export to the US

The US is a large economy, but its geographical size means that sustained expansion can require significant work and its federal structure means that laws and regulations can vary from place to place. So, how can firms meet these challenges?

Our first piece of advice would be that no one route is the right one. However, many small to medium-sized enterprises have found success by growing incrementally; starting small, rather than trying to "crack America" in one go, aiming for a regional foothold instead of immediately going for the biggest cities. Richmond, capital of Virginia, is now home to a number of British logistics and manufacturing firms thanks to its proximity to the Washington DC area, for example.

Local areas have Economic Development Organisations that compete to attract business investment, so it is also worthwhile seeing what incentives they offer. Atlanta, for instance, has attracted a number of UK fintech companies as well as film and TV companies such as the iconic Pinewood Studios.

My second piece of advice is to prepare as much as possible, take the time to get to know your target market and understand any challenges in order to make the most of businesses opportunities. This is something my department can help businesses with. DIT is an entire government Department, with over 3,900 staff and a £400m budget, whose ultimate job is to help businesses thrive. We have 132 staff in nine cities across the US, and sector-specific and regional advisers here in the UK.

We provide the latest advice businesses need to start exporting, both through our advisers and our online guidance. We also have an established network of contacts the length and breadth of the country and can give firms the introductions they need to tap into US markets.

We don't just focus our support on large exporters, either. We are proud to help firms of all shapes and sizes, from all sectors and all areas of the country. Since launching the government's Export Strategy last year, we have begun building out a network of Export Champions who can provide peer-to-peer advice for SMEs – we estimate there are some 400,000 UK companies who could be exporting but are not.

Take the drinks company, Fever Tree, who are now the US market leader in premium tonic water. DIT helped with its initial market research and setting up its first US facility, and connected Fever Tree to its initial distributor. Or the Newcastle-based app developer, Hedgehog Lab, which first visited the US on one of our trade missions and now has a major presence there.

Businesses can also get grants from our Tradeshow Access Programme, join a business delegation on one of our regular ministerial visits, or just look at our opportunities listed in our Export Opportunities tool on great.gov.uk, from investment consultancy to TVs.

At this point people often ask us: well yes, but is now the right time to sell to the US? My answer is an unqualified yes, and not only because of the underlying strengths of the opportunities there.

After we leave the EU, we will be able to negotiate and sign a Free Trade Agreement with the US – something which the President has called for. Already, we have made good progress with the US government on areas of mutual interest, such as through our regular Trade and Investment Working Groups. And I am delighted to say that they recently agreed to carry over the EU-US Mutual Recognition Agreement after Brexit, and notified Congress in October, ahead of schedule, of their intention to negotiate a full Free Trade Agreement with the UK.

There is so much potential but more still to do to develop our trading relationship with the US even further. I'd urge any and all businesses with a desire to grow to consider exporting, and to get in touch with our teams across the UK. It could be the helping hand you need to establish yourself in the world's largest market.

Boosting UK-US trade and investment post-Brexit

David Talbot, senior director of international government affairs at Eli Lilly and Company, explains why supporting seamless trade is so important for patients' access to medicine

SHUTTERSTOCK/HANNA KUPREVICH

The UK and US have a deep and enduring trading relationship, fostered over many years of economic cooperation, shared cultural values and global geopolitical partnership. Today, in the context of worldwide political and economic uncertainties, not least the UK's decision to leave the European Union, it is critically important that this relationship continues to thrive in the interest of mutual prosperity for all.

Discussions between London and Washington on a new trade deal are intensifying, with the United States Trade Representative (USTR) having formally notified Congress of the Trump Administration's intent to begin trade negotiations. Enhanced transatlantic cooperation offers many potential opportunities, but we already have a strong base from which to build. In the biopharmaceutical sector, the UK exported more than $5.5bn in medicines to the US in 2017, with imports valued at over $3.6bn moving in the opposite direction. UK companies are the single largest investor in the US, investing $569bn as of the end of 2015, and play a major role in America's high-value life sciences sector, with pharmaceuticals accounting for more than two-thirds of R&D spending by UK firms in the US. Meanwhile, US companies account for nearly a quarter (24.5 per cent) of the UK's total inward investment, supporting 1,349,000 direct jobs. This mutual relationship has become an essential part of the UK economy and has helped to drive growth in many of our key sectors, including life sciences.

Lilly is a global biopharmaceutical company with a long history of investing in the UK, having opened the door to our first UK site in 1934. We now employ around 1,000 people across two sites in Erl Wood (Surrey) and Basingstoke (Hampshire). In the last ten years, we have invested £1.9bn on UK R&D, including £48m of investment into Lilly's Centre for Cognitive Neuroscience at Erl Wood, our largest research facility outside of the US.

The current lack of clarity on the UK's future relationship with the EU has presented a number of very significant

challenges for our business and we continue to urge all sides to agree a way forward that maintains close cooperation with the EU on medicines regulation and cross-border movement of goods. Nevertheless, as an American business with a large presence in the UK, we are keen to ensure the government makes the continued growth of UK-US trade a top priority, increasing opportunity for investment and ensuring UK patients continue to access the latest life-saving medicines.

On 27th February Lilly UK, in partnership with BritishAmerican Business (BAB), hosted a roundtable discussion bringing together key stakeholders from Parliament, the Department for International Trade, the Medicines and Healthcare Products Regulatory Agency (MHRA), the US Embassy, business organisations, industry bodies and think-tanks, to discuss the future of Britain's international trade policy.

From the discussion key themes emerged that, if put in place, would send a strong message to global executives that the UK will remain a leading life sciences hub post-Brexit, with a pro-innovation environment that can drive inward investment and maintain global economic competitiveness.

For example, it is clear that robust and effective regulation sits at the very heart of a strong life sciences ecosystem. With the right frameworks and standards, good regulation provides a predictable and transparent market that promotes trade, attracts investment, enhances medicines discovery, and accelerates patient access to the latest innovative products. Building on common ground and increasing regulatory compatibility between the US Food and Drug Administration (FDA) and the UK's MHRA can help optimise regulators' resources and reduce costs for industry, enabling more money to be spent on medical research. As a simple example, both the UK and the US maintain high regulatory standards on inspection of drug manufacturing sites.

Mutual recognition of those standards, which enables regulators to recognise each other's inspections without carrying out duplicative inspections of their own, can result in significant cost savings for both industry and regulatory agencies. The UK recently signed a Mutual Recognition Agreement (MRA) with the US on Good Manufacturing Practice (GMP) inspections, replicating an existing agreement between the EU and the US. This is a positive and pragmatic step to streamline regulatory processes, avoiding costly additional and replicative bureaucracy and providing a good base for further cooperation on joint regulatory protocols.

As science and technology evolves rapidly, and technologies such as AI, computational biology, digital innovations and personalised medicine present exciting new therapies for patients, regulators on both sides of the Atlantic face similar challenges in how to regulate novel and emerging technologies. Exploring how enhanced transatlantic cooperation can support aligned regulatory approaches in these fields can help minimise duplicative or inconsistent requirements that may act to slow or inhibit new treatment options from reaching patients. Trade discussions with the US provide the perfect forum to explore how the UK and US can set international gold standards in these emergent areas.

Another important area discussed was that of intellectual property (IP). IP is the lifeblood of the innovative pharmaceutical industry, providing innovators with the security required to invest in the long, complex, risky and extremely costly process of delivering new medicines to patients – a process with costs running into the billions of pounds for a single successful product. As part of a future trade deal, the US and UK have a key opportunity to reaffirm their existing commitment to high standards of IP protection, demonstrating global leadership to secure the highest international standards in the interest of promoting cutting edge medicines research.

The UK has a fantastic platform for success but there is always room for improvement in supporting the life science sector's critical place in the national economy. The process for getting new medicines to patients in the UK is still slow, especially compared to other advanced economies, and more can be done to build positive partnerships between industry and the NHS. The threat of Brexit also continues to loom large. Taken together, these issues remain a significant barrier to UK investment for many global companies, especially in the face of rising competition in the US, Asia and other European countries. But with an outward-looking trade agenda, forging new deals with countries like the US has the potential to secure a better future by facilitating the development of new medicines, improving health outcomes, and supporting long-term economic growth. In this respect, the UK can cement its global leadership position in the life sciences, positioning itself as a leading adopter of innovation at pace and scale, and in doing so send a strong signal to international boardrooms that the UK remains open to global investment.

Nigel Sheinwald, former British Ambassador to the United States and current chair of the US-UK Fulbright Commission, talks to Rohan Banerjee about sharing talent and resources

"It's in our DNA to be an international, outward-looking country"

SHUTTERSTOCK/SPIROVIEWINC

So "complicated and multi-layered" is the United Kingdom's relationship with the United States, according to Sir Nigel Sheinwald, that there should be a tacit acceptance of its importance, "independent of the political temperature of the time". While the press, he says, perhaps affords more prominence to the "high-profile political aspects of it… such as the chemistry or lack of chemistry between the President and the Prime Minister", Sheinwald insists that it will always be in the interests of both countries to maintain the links for trading and talent exchange that have been built up over time. "This isn't a light-switch situation, you know. There's a lot going on and that's been developed over decades, centuries even, and that comes from an embedded, integrated, cultural appreciation between the two countries."

Sheinwald, who in a diplomatic career spanning four decades previously held the positions of British Ambassador both to the US and to the EU, believes that it's "in our DNA to be an international, outward-looking country". While his views on the UK's decision to leave the EU are well documented – he is an unabashed Remainer – Sheinwald doesn't want to dwell on "what we'll lose", but rather, shifts focus onto how a pre-existing relationship outside of the bloc might be improved to "bridge any gaps" left by Brexit. "I think that talent will have to come from around the world… but in this regard the US is absolutely central to the areas of business, education and research. The US already


Princeton University, New Jersey

> “The US is best-placed to plug the UK’s skills gap”

makes a huge contribution to our economy and to our investment profile.”

Sheinwald, who also served as a foreign policy adviser to Tony Blair’s Labour government, is now the chair of the US-UK Fulbright Commission and a visiting professor in foreign policy and security at King’s College London. He says that higher education has the potential to “complement” any future vision for US-UK trade.

If Brexit, as is widely expected, leads to the end, or at least severe restriction, of freedom of movement for foreign workers in the UK, and to less EU funding for universities and research projects, then Sheinwald says the US is “best-placed” to fill those voids. He explains: “The US is a very important destination for British students, researchers, academics and professionals, and vice-versa, the UK is important for American talent. I expect that situation is likely to become more important in the period post-Brexit. So ensuring the best professional and educational relationship that works both ways is going to be absolutely vital.”

The US-UK Fulbright Commission, established in 1948, is a non-profit organisation based in London to support educational exchange programmes between the two countries. Part-funded by both the US and UK governments, as well as by individual and institutional investors, Fulbright has helped around 27,000 students, primarily postgraduates, to study abroad.

In order to be eligible to receive a Fulbright scholarship, candidates must be US or UK citizens and be able to prove they are “academically capable” (a judgment usually made off the back of a first degree or academic record to date), and submit a written explanation of what they hope to gain from studying for a degree either in the US or the UK. Applications to US or UK universities are a separate process. Successful recipients of Fulbright scholarships get financial support towards their tuition fees and their living costs.

Despite the enthusiasm for what he terms “isolationist” politics in some quarters, Sheinwald is confident that “increasing numbers of young people want the opportunity” to go to university in another country. But Fulbright has been criticised by some people for being a too exclusive an organisation, not well known within more working-class communities or even at universities outside of the24 in the Russell Group.

When former Universities Minister Sam Gyimah announced an additional £400,000 of funding for Fulbright in the 2018/19 academic year, he stipulated that it should be used to enable students from deprived socio-economic backgrounds and ethnic minority groups to “benefit from what has historically been perceived as a very elite programme”. Last year, 42 per cent of Fulbright

Fulbright is investing in diversity and outreach

SHUTTERSTOCK/JANNIS TOBIAS WERNER

scholars were privately educated.

Sheinwald admits that Fulbright "could do better" when it comes to showing the diversity of its programme, but doesn't think affirmative action is the answer. "I don't agree quotas would solve everything. I think there is a problem with the perception of what Fulbright actually is. We get lumped in with [the] Rhodes [Scholarship], which is something specifically for students to study at Oxford. The idea that Fulbright is just for Harvard and Yale, Oxford and Cambridge… that's a caricature, to be honest. We have a wide range of universities involved." Nevertheless, Sheinwald accepts the "challenge" to improve social mobility. "We could do better and that's why we'll be targeting more awareness programmes across British schools and universities."

Whilst Fulbright has traditionally dealt with postgraduate programmes, in order to "broaden its horizons", Sheinwald says it is now also involved in more undergraduate opportunities. Fulbright has recently partnered with The Sutton Trust, a UK educational charity dedicated to boosting social mobility, to design The Sutton Trust US Programme. It aims to support high-achieving Year 12 students from state schools with two funded residential placements within the UK, before also funding a week in the US on campus at a leading American university. An optional second year of the programme supports students to apply to US universities alongside their UCAS options. "Last Autumn," Sheinwald says, "Fulbright and The Sutton Trust sent over 70 undergraduate students to a very wide range of universities with generous financial aid packages."

The UK, Sheinwald says, benefits from having a "disproportionate number of the world's best universities". Indeed, according to the QS World University Rankings for 2019, the UK accounts for five of the top 20 entries. The US, meanwhile, accounts for 11. Sheinwald adds: "I think the reason why the US-UK educational relationship is so important is because frankly it is something that has been gifted historically to the UK. If the UK wants to maintain its place at the top table of academia globally, then it needs to enhance its partnerships with the other top universities, especially in the US, and especially if funding frameworks with European universities are going to be revised. The best way we can help our education system to remain at the top table is to strengthen these links at all levels. I would see the success of programmes such as Fulbright as central to the UK's chance of success in an increasingly globalised world."

As for the future, then, does Sheinwald think that the importance of academic exchange is particularly high on Donald Trump's agenda? "I don't know if Fulbright is on the President's radar, to be honest," he says with a sigh, "but I do know that the US administration continues to fund the Fulbright programme and it has a very strong support in Congress. There are always going to be questions around whether countries like the US do enough to fund cultural or educational causes alongside other aspects of foreign policy, but so far, I'm pleased to say, our funding from the US side has remained intact, and even increased last year." Could Brexit end up being a success? Sheinwald doesn't care to speculate beyond what he's already said, but insists, with "sustained" government support, "Fulbright certainly can be."

China's language tells us a lot about the trade war

Martin Heale, portfolio director of Schroders US Wealth, reads between the lines to assess the state of trade relations between the US and China, and what it means for investors

The trade dispute between the world's two biggest economies, China and the United States, remains one of the most significant investor concerns of 2019. Markets react with increasing sensitivity to fresh hopes – or stumbling blocks – emerging in the ongoing negotiations. In the background, a slowdown of Chinese and global growth is further cranking up the levels of anxiety.

The two countries' respective positions on trade and deficit receive much attention. What is less examined is the language used by either side. Although China has said little officially about the disputes, a careful reading of what it has put out is revealing.

President Donald Trump says a lot and says it loudly. His messages fluctuate. China, in contrast, doesn't do bluster. It says very little and what it does say is brief, considered, and highly consistent.

My colleague, global economist Janet Mui, has read China's official statements in its original Chinese and cites some interesting examples. China is prepared to be accommodating and flexible – but only up to a point. Its officials come to the table with some genuine concessions, but its language conveys a clear limit. In its November 2018 G20 statement, for instance, she points to the use of a Chinese word loosely translated as "reasonable". China is prepared to meet "reasonable" US demands. This is significant; Janet sees it as China making a forceful point about how far it is prepared to go.

Elsewhere, she sees China going even further, and using its habitually polite, restrained language to deliver a coded threat. It has offered to help address the trade deficit, for example, only "according to Chinese domestic market conditions and the demand of the people". Put more bluntly, it's warning the US not to push.

As Janet said: "The contrast in tone is remarkable and it's partly down to the different cultures of the two countries. But China's message is in essence very brief and remains consistent. "It's saying: 'if you hurt our economy, you'll hurt yours too'."

For now China doesn't need to add much to this argument – corporate data from the US is stepping in to make the point on its behalf, and markets are only too aware. The trade deficit was widening at the end of 2018, and corporate results in January this year have shown just how much a Chinese slowdown can hurt US business.

Construction machinery producer Caterpillar, computer processor maker Nvidia and Apple are among a growing string of companies where disappointing results announced in early 2019 have been linked to China's slowdown.

As part of global asset manager Schroders, we benefit from an enormous depth of research and analysis undertaken by colleagues around the world. This rich resource provides insights that feed our investment process. The Schroders Sustainable Investment Team, for example, has developed a model assessing the risks trade barriers pose to companies' supply chains. Its latest quarterly report highlighted the five most exposed industries in the US: household products, internet retail, containers and packaging, life sciences and aerospace and defence.

For now – at least in terms of the clarity and consistency of its message – China appears to occupy the higher ground.

Raising a glass to the special relationship

SHUTTERSTOCK/ MARIAN WEYO

Miles Beale, chief executive of the Wine and Spirit Trade Association, explains how the US got a taste for British gin

It is official: the United Kingdom is in the grip of a gin boom, with no signs of the British consumer losing their thirst for new gin experiences any time soon. Not wanting to be left behind, our American cousins have caught the gin bug and more and more British gin is winging its way across the Atlantic.

The UK sends British gin to nearly 140 countries around the world and last year exports reached £612m, up 15 per cent on the previous year. The United States' spirits market has traditionally been a vodka-drinking market, but in recent years gin has started to trend. Even *Vogue* magazine was keen to get in on the act and last year they featured an article on "how gin bounced back".

The US is the largest importer of British gin, buying in £191m's worth in 2018, up almost £13m on 2017 and has grown by 31 per cent in the last five years. There is no sign of this trend slowing.

The number of distilleries opening in the UK has more than doubled in five years, bringing the total up to 361, according HMRC records. There are now hundreds of gin brands in the US – it is hard to put an exact number on it as new gins come on the market so frequently.

Having become established at home producers are now looking to expand their business overseas and export into new markets to keep volumes up and maintain growth.

So, what has caused the Great British gin's impressive comeback? What was once dubbed "mother's ruin", made famous by William Hogarth's *Gin Lane* etching in 1751, is now a sophisticated spirit which encapsulates the best of Brand Britain. Consumers are increasingly interested in the locality, provenance and authenticity of what they are drinking. Gin distilleries have been quick to pick up on the revolution which was happening in British food industry, some years ago, with locally sourced foods becoming big business. Millennials, who now make up 75 million potential US customers, place increasing importance on drink

The US is UK gin's largest importer

characteristics and provenance and are a core target for British gin exports.

The growing demand for gin coincided with, and greatly benefited from, the Brand Britain effect. The success of British gin overseas has come alongside the huge appetite for all things British thanks to successful exports such as *Downton Abbey* and *The Crown*, not to mention a very high-profile Royal wedding. In 2017, combined sales of the quintessentially British spirit both home and abroad broke the £1.5bn mark. In 2018, combined sales overtook £2.5bn.

Britain has a proud spirit making heritage and the WSTA is working with the Department for International Trade to support its innovative distillers who have gained a reputation in the global spirit industry.

As part of this the Wine and Spirit Trade Association in conjunction with the Department for International Trade have organised a series of trade missions in a bid to encourage exports and showcase the incredible quality of British gin and English wine.

There has been increased diversification in drinking tastes, with Americans increasingly looking to switch from the dominant beer category, to other drinks such as spirits and wine.

The amount of English wine exported to the States is much smaller by comparison, however it too is seeing a growing audience in the US.

English sparkling wine producer Hattingley Valley was chosen as just one of nine wines the US retailer Whole Foods promoted nationwide in the run up to Christmas. It was available in 420 stores in 40 states, making it the first English wine available right across the US. Chapel Down in Kent has given its US distribution partner the chance to buy thousands of its shares as its fizz has proven to be a real a hit with Americans.

It is imperative for the UK wine industry that trade with the US remains uninterrupted. In the last 12 months UK consumers bought the equivalent of over 40m bottles of American wine with sales worth around £350m.

A sensible trading arrangement with the US – without any unnecessary tariffs on wine or spirits – will ultimately save businesses and consumers money on both sides of the Atlantic.

In 2018, the equivalent of 27.6m bottles of US whiskey were exported to the UK, which is more than double the amount sent here ten years ago, and an increase of over 14m bottles on 2008. This is impressive growth – although too early to say if the 25 per cent tariff imposed in June 2018 by the European Commission in response to the imposition of tariffs on steel imported to the United States from overseas will have an impact.

Outside the EU the UK government has an opportunity to develop trade agreements encouraging the spirits and wine industry to thrive. Britain has agreed mutual recognition trade deals with Australia and New Zealand, as well as trade continuity agreements with Switzerland, Chile, the Faroe Islands and the eastern and southern Africa trading bloc. The WSTA welcomes these agreements but is calling on the UK government to make it a priority to suspend the 25 per cent retaliatory tariff on Bourbon and American whiskey as soon as it can to protect consumers from price hikes.

The two countries have already taken a step in the right direction by agreeing the continuity of the US wine and spirits agreements. Both agreements are key to the importation of wines and spirits from the US. The wine agreement includes commitments regarding wine-making practices and labelling requirements and will ensure market continuity for bilateral wine trade. A number of key protected names are recognised as part of the spirits agreement including Scotch whisky, Irish whisky, Tennessee whiskey, Bourbon whiskey, and Bourbon. More must be done, however, and quickly, so that we maintain our position as the world's largest spirits exporter and wine market, and further boost the UK economy and provide even more jobs.

The end of the car will be a turning point for global trade

Cars are the world's most traded products – but that will not last, writes Will Dunn

The UK imported £42bn of goods from the US in 2018, and exported £55bn. This is, roughly speaking, in line with what you would expect from the fact that the US is a larger economy, which means its businesses and consumers can afford to exercise their choice to buy proportionally more goods from the UK. Many other big economies (except China) appear to follow this very general rule. The UK has slight trade deficits with France and India, and its economy is slightly bigger; its trade deficits with Italy and Spain are slightly bigger again, and its economy is that much bigger again. Two similarly sized countries that don't conform to this model are Germany and Japan. What makes Germany and Japan different? Cars.

Between them, Germany and Japan contain less than three per cent of the world's population, but they account for more than a third of global car exports. In 2017, the Volkswagen Group alone produced more than 44,000 vehicles *per day*. But the demand behind these massive exports is probably not sustainable.

In the UK media, car factory closures outside Britain go largely unreported, but they are happening. Massive job losses have occurred in the past decade in Belgium (where Ford closed its Genk plant, costing 4,500 jobs), France (where Groupe PSA, Peugeot Citroen closed its factory outside Paris, costing 8,000 jobs) and Germany (where GM closed its Opel plant in Bochum, costing 3,000 jobs). It is tempting to blame Honda's decision to close its Swindon plant in 2021 on Brexit, but at the same time it also announced the closure of its factory in Turkey. There is more to it than that.

Three years before the Brexit vote, the OECD's International Transport Forum found that "the growth rate of passenger vehicle travel" in most Western countries had "declined… dropped to zero or turned negative". Cars are an expensive, wasteful and tedious form of transport, and the car industry has been replaced by the technology industry in the affections of younger consumers; the number of teenagers learning to drive in the UK fell by almost a third between 2007 and 2017. Britain is becoming more urbanised – city centres, where cars are worse than useless, are growing many times faster than towns or rural areas – and broadband is for many businesses a more important connection than road access. This is true almost everywhere; the UN predicts that 68 per cent of the global population will live in cities by 2050.

In line with other parts of the economy, from media to holiday accommodation to office space, huge numbers of people are switching to technologically enabled rental and co-ownership as more affordable and convenient than buying a product and keeping it.

Currently, the two most traded goods on the planet are cars and refined petroleum (and the fourth is vehicle parts). It looks very much as if the balances of trade between countries will undergo massive readjustment over the next couple of decades.

Genuinely forward-looking trade policy, then, should look at the exposure of our economy to this building trend.