Peterson Institute for International Economics

Trade Britannia?

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[00:00:18.05] - Cecilia Malmström

Good morning. Good afternoon. Good evening. Welcome to this episode of Trade Winds. My name is Cecilia Malmström. I am a nonresident senior fellow at the Peterson Institute for International Economics in Washington. In a world of tariffs and trade conflicts, it is interesting to look at the case of the United Kingdom. Only during the month of May, the UK managed to conclude trade deals with India, with the US, and an updated version of its old trade agreement with the European Union. One of the arguments of, in the Brexit campaign was, apart from being independent from Brussels, was that the UK should be able to become much more active on the global trading scene and conclude its own trade agreements. As a member of the EU, of course, the UK was part of the trade deals that the Commission negotiated on behalf of the member states. So when it left, it had also to leave 42, or was it 43 trade agreements done by the EU. And since then, it has negotiated a handful of bilateral trade agreements. The EU and the UK negotiated a trade agreement between themselves when Brexit entered into force, and it has been a source of certain tensions, I would say.

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But in despite of the trade tensions, the security cooperation has been very good between the EU and the UK, especially since Russia's invasion of the Ukraine. And it has intensified with the uncertainties of the future of NATO. The British Prime Minister, Kirsten Armer, and the French President Macron have been leading efforts to strengthen the European dimension in NATO. And as we speak, the NATO Summit is going on. And at the summit last month between the UK and Europe, there were trade negotiations and trade discussions, but also a lot of negotiations and discussions on the security cooperation dimension. On the so-called Liberation Day, when President Trump distributed reciprocal tariffs to most countries of the world, the UK received tariff of 10%. The country was of course affected also by the prior decisions on 25% of steel and aluminum and on car and car parts that all countries got. But the UK was the first country to conclude a deal with the Trump administration. So with all this, we will try to go a little bit deeper

in the deals made by the UK and analyze them. Are they good deals? What is the strategy of the UK when it comes to trade?

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The EU is also negotiating with the US and is trying to do a trade agreement with India that will that UK concluded earlier in May as well. Are there lessons to be learned there? And where does the UK see global trade going? And how can the EU-UK relationship develop beyond the trade area? And to shed more light on this, we have two great panelists with me today. Heather Grabbe, who is Senior Fellow at Bruegel in Brussels and a visiting professor at University College in London. And she was previously the director of Open Society Institute, and she has also been a cabinet member in the European Commission. And we have David Henig, who is the UK Director of the European Center for International Political Economy. He's a columnist, he's a trade advisor, and he has a long experience in advising UK governments and others on trade issues. And on social media, you describe yourself as a tradewonk, which I think is something you share with many in the audience today. So welcome to both of you. So let's start with you, David, before going into the details of all the steals. What would you say is the general mood when it comes to trade in the UK?

[00:04:02.10]

I think the government will present later this week a trade strategy. What's the— if you give us a general overview, what is the aim of the UK trade strategy?

[00:04:13.26] - David Henig

Well, I think I would start by saying that the UK remains committed to relatively open trade. And in that respect, we're not following the lead of the US. We're probably not following a fairly global pattern either. There are— there is probably more caution than there used to be in the UK. There is more talk of things like economic security. There is a little bit more defensiveness around sectors like steel. But in general, the UK public, UK politicians remain pretty firmly committed to free trade, at least in principle. What has happened, I think, in the last couple of months, and when we saw those deals in May with India, the EU, the US, only one of which with India could be considered a traditional trade deal, is I think we were seeing a government finally coming to terms with having left the EU and that it wasn't really working, the first version of trade policy, almost trying to replicate what the EU had done. We successfully replicated the trade agreements, but we couldn't replicate the structure or the new agreements because we didn't have as much to offer. We couldn't really work out what it was we were trying to get out of this.

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So instead, what we've seen in the last couple of months is the government more pragmatic in thinking, let's do some deals. Let's, let's see what we can take forward rather than holding out for the best that could possibly be the case. That was certainly the case with India. I think it was the case with the US. I think arguably even with the EU. So what we're seeing is a certain maturing of the UK's post-Brexit position. I don't think we're there by any means yet in a sophisticated class, but I think we've moved a step forward in the last couple of months.

[00:06:03.18] - Cecilia Malmström

Would you agree with this, Heather? I mean, even if they are a bit shallow, the trade agreements, it's quite remarkable that just in a month concluding trade deals with such a difficult country like India, with the EU, and also the first country achieving something with the US. Can we see a leadership role here from the UK, or is it Just a coincidence.

[00:06:24.19] - Heather Grabbe

Well, it's a fortunate coincidence for a new government which is trying to move beyond Brexit and beyond a lot of past history and to prove that it can, it has an economic strategy for the UK. So having this series of deals is a way for the Starmer government to say, look, we are open to the world and we are getting stuff done. The tricky thing is that the Starmer government has come to power at a moment when trade agreements are not largely about trade, they're actually about geopolitics. And where many of these agreements are more statements of intent rather than the kinds of detailed agreements with, you know, 1,000 pages of rules and different kinds of tariff agreements and so on, the kind of thing that you used to negotiate, Cecilia. These are very different kinds of agreements. They're rather short. I mean, the one with India, as David just said, is perhaps more of the traditional kind. But the one with the EU and the one with the US are really very different kinds of animals. And that's because of the need for the UK to, to manage the very tricky geopolitics now, to try to keep Trump going with some form of engagement and avoid really swinging tariffs.

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And the UK decided to go for a rapid agreement, whereas Australia and the EU have decided to take their time and spin it out and have a longer game. But essentially, these are, these are very far from the kind of trade agreements of the past, which really gave lots of details and applied the sorts of principles that can, that could be, that could govern all of global trade. They're much more transactions for the moment, to try to keep Trump sweet, and try and avoid the worst of the impact of the trade war on the economy. But it's also very important to notice that in all of

these deals, and I think there will be others that both the UK and the EU will try and negotiate with, for example, Indo-Pacific countries, it's also about creating coalitions of the willing, coalitions with countries that want to keep trade open and rules-based to give alternatives and some more wiggle room for everybody who's facing US tactics, US pressure, for example, to cut China out of supply chains, all of these kinds of issues. There's a lot more interest in all kinds of coalitions of the willing, and trade is an important part of those coalitions.

[00:09:03.23] - Cecilia Malmström

But maybe here the UK is showing the way because in the current climate, the traditional trade agreements, as you mentioned, Heather, and you have analyzed a lot, David, they are like 1,500 pages. There are 32 chapters of very detailed rules and they take 5 or 6 years to negotiate it. Then you have to have the agreement by all the, all the different parliaments involved and so on. And that's obviously not the future, at least not, not now on a short-term basis. So maybe this is the way forward. But if we start with, with them in chronological order, India, you both said that this is more of a traditional trade agreement. India is, is of course a very important economic and political partner, but it's also known as, as a quite difficult partner to negotiate with. The EU has tried for a lot of time, and others as well. But India has recently engaged in trade in a way we haven't seen before. And just looking at, at the headlines of this, it's quite ambitious, eliminating 99% tariffs of the exports and going down on car tariffs from 100% to 10%. And it involves consumer protection, labor rights, fight against corruption, uh, movement of people and facilitation of visa.

[00:10:15.13]

That's quite ambitious, isn't it? How, how did the UK government succeed with this, David?

[00:10:21.05] - David Henig

So, um, those headlines are quite ambitious, but The story underneath it is probably not so much. So for example, the car tariff for 10% is for a limited quota. I think the rest is either— will be 30% or 50%. We haven't seen the actual text yet. There is a labor rights chapter, I think, but it will be limited in its commitments. And I think that was the key, actually, to how the UK succeeded. So as you will know, and as plenty of people in the audience will know, India's way is really to say no to all of these things. For a long time, the UK appeared to be, uh, certainly under the previous government, was saying, we will get a, a really groundbreaking deal with India like nobody has got before. And it was never really going to be an offer to the UK. And even worse, what India wanted from the UK, uh, well, a couple of things. They wanted lower tariffs or no tariffs on textiles because that's, uh, serious competition from countries that benefit

from from, uh, developing country, uh, tariff-free trade, uh, in particular Bangladesh. So they wanted that, but they also wanted mobility of people, which is very difficult for the UK.

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What seems to have happened with the UK government is it started to drop some of the difficult things that it wasn't going to be able to get, uh, for example, in services. There's not much there for the UK in services, um, so it gets some of the big wins for the UK, a little bit on cars, on Scotch whisky tariffs, the various other things doesn't get everything that the UK wanted. But I think that's the realistic approach, is that will do for now. We'll see if we can build on it later. We'll see if anybody else gets anything better. They may not do so. And I think that's the advantage the UK maybe has over the EU, is that with fewer different groups to satisfy, it could reach this deal that was a little bit limited, but at least a step forward. And I personally, I had always advocated for that because I have some reasonably strong ties with India. And I just didn't see the deal that was previously being described. When Boris Johnson as prime minister launched talks, he said it's going to be this wonderful thing, as Boris Johnson always did. And you just think, this is not an Indian trade ministry that sounds familiar to me, the one that says no.

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And throughout the talks, Indian trade ministry used to regularly brief that talks were nearly all over just as long as the UK would agree to everything they wanted, and various tricks that we've seen. So the UK in the end, I think, just made a good decision to say, let's cut at this point. We'll get some of what we wanted, and we can see if we get more later. And I think that's a model. And you were talking as well about, you know, is the UK setting a model for the future? Well, I think potentially, as the traditional free trade agreement model reaches maturity such that there aren't so many new ones to go. This idea of just maybe moving different subjects forward gradually within overall frameworks, I think, may be part of the replacement for that.

[00:13:29.05] - Cecilia Malmström

That's very interesting when we talk about what the changes in the trading system as a whole. The EU has, of course, been negotiating with India for 20 years with, with different breaks. And then there's a relaunch and then there's a pause and then there's a relaunch again. But now, from what I hear from DG Trade in Brussels, is that they are really committed and they are focusing and hoping to finalize this by the end of the year. So maybe this is the way forward also for the EU. Obviously, as you say, David, much harder for the EU who has more stakeholders on board. We have something we call geographical indications, which is always

what comes at the very last moment in every negotiation. It's the feta cheese and it's the Roquefort and it's the prosciutto di Parma and all that. And lots of countries, this is really important, which I I guess this chapter was not very ambitious in the UK-India agreement, but maybe this is the only way to get a smaller agreement, less ambitious, but at least a first step. And then you could build upon that. What do you see? What do you think, Heather?

[00:14:31.11]

Is this, is this what we will see likely if it happens by the end of the year or early next year? The EU-India agreement, can it learn from the UK lessons?

[00:14:42.06] - Heather Grabbe

There's certainly, I think, a key thing to learn is how keen India is now to have these kinds of deals because India is itself very much caught in the geopolitics and their fear of how China's relationship with the US might develop. The impact on India's own development as an economy of trade means that there's now a big push from the Indian side, from the whole Indian government. It's not just the trade minister, but also the foreign minister, Jaishankar, Narendra Narendra Modi, the prime minister, have all said we want a deal by the end of the year. They're pushing much harder than they have in previous rounds of negotiations with the EU side. But of course, there's also always a trade-off between the level of ambition of a deal. How much will it cover and how fast you can do it? Speed versus content is always there. And already it looks like some of the most sensitive issues have simply been taken off the table. There won't be coverage of things like dairy products, which has always been a bone of contention. And pharmaceuticals could also be taken out because although very important, they're very sensitive, especially for the Indian side.

[00:15:53.26]

But, you know, they— but if they can get some agreements on rules of origin, on intellectual property rights, that really would be a big step forward. And it is something that could be built on in the future. The tricky thing is that the EU as a body with its powers of negotiating trade as a bloc with the European Commission representing the EU and so on. Not only do you have a lot of stakeholders to keep on board, as David was saying, but also these deals on the EU side are usually not quick and dirty. They're usually quite lengthy. They usually, they try to be comprehensive because it's such an effort then to get them ratified by all the parliaments, as you were saying, Cecilia. And that's why it might not be very satisfactory to the EU side to do a deal with India that would be as small scope as the UK deal, because the institutional structure

and the political effort to get it done would mean that they would want more in it because it's very— it's harder for the EU to come back and do another deal, another set of deals over time.

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It's better to have it done in one go. So I think that in terms of this trade-off between time between speed and content. The EU will want to go more on content, but I think India wants to go more on speed. So I suspect that that's— that will be in the end what they have to decide on if they're going to get to a deal in December. But I get the impression that, you know, as with other trade deals, everybody wants to show willing to engage in trade right now and not to be part of a global slowdown in trade. And that is incentivizing everybody to work harder on these deals.

[00:17:39.14] - Cecilia Malmström

Well, we've been on it for 20 years, so, you know, it's less than Mercosur.

[00:17:45.27] - David Henig

I'm sorry, it's less than Mercosur.

[00:17:48.25] - Cecilia Malmström

Indeed, indeed. But Mercosur is being— I think there will be a vote on that beginning of the Danish presidency, so let's see. But you're right. But the fact that even if you said, David, that it is ambitious in a way, but if you look at some details, it is more shallow than it appears. At least India has made efforts that we haven't seen, you know, 10 years ago, it would've been difficult to have India making these concessions and so on. So maybe we'll see. One other thing, if we stay in that region, is of course that the UK became the last, the latest member of the CPTPP, the Comprehensive Progressive Trans-Pacific Partnership agreement that was launched many years ago by President Obama in order to create a trans-Pacific alliance to be stronger vis-à-vis China, and then the US withdrew. And with the collective efforts of the other 12 countries, it is now in force and is working rather well. And the UK just joined, not really in the Trans-Pacific region, but still a very important member paving the way for others. And the waiting list or the application list is quite long. And ironically, China has also applied to join together with Taiwan and many other countries, especially in Latin America.

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But this was quite, I think this didn't really shock, but it made many people raise their eyebrows in the European Union when UK joined that. What was the strategy behind that? Is this a signal that the UK again want to be independent from the UK and go global in a different way? Because many people say that while WTO now is not really functional, it is in the CPTPP that the action is. There is a lot of activity going on setting standards, forming new rules, etc. And of course, UK being part of this has also made the European Union finally realize that maybe we should look a little bit closer on that. Do you know more about the strategy behind this?

[00:19:55.26] - David Henig

Well, the interesting thing really with the UK joining CPTPP, which is something pursued by previous, the previous administrations, is that there are a number of completely different strategies to it, all of which sort of came together in the form of joining CPTPP. So One part of it is very much externally driven. It comes from Japan, who were very keen to maintain strong ties to the UK, were a little bit worried about the direction of travel in the UK, and thought this was a way to keep the UK very much bound in. Another part of it came from those who wanted the UK to do a full trade agreement with the US, who thought the CPTPP might be a bridge towards doing so. There was a part of it that saw it more from an economic growth perspective, and a part of— a part of it who thought of it more from a security point of view and old ties. Then there was a global trade point of view. And a final part of it is as an alternate supplier and a supply line to China, because you're actually— we may not be in the Pacific region, but we're definitely customers of products that come from there.

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And we're actually setting up, you know, setting up potentially quite an interesting alternate path there. So there wasn't, I don't think, one specific reason, but all of those came together. In order to make this something that more or less everybody could actually support in the UK. So it just made sense. And I think that when people have looked at it in the UK, whether from an economic or political point of view, it doesn't necessarily add a lot economically or politically, but it just feels like something that is a reasonable step to take. And it was probably alongside the replicating original EU agreements to which we were a party. It's probably the other great success of trade policy before this government, because the previous government also did trade deals with Australia and New Zealand, but they're not particularly well thought of by UK stakeholders. But more or less everyone was happy with the CPTPP accession.

[00:22:01.20] - Cecilia Malmström

And this is now again being discussed on a more serious plan in the European Commission as well. They were long claiming that it wasn't necessary because we had trade agreements bilaterally with all these countries and it wouldn't necessarily need more market liberalization. But as David says, there are so many other things. This is where the trade dynamics in the world is happening right now. And it's not only market access, it's also about setting the new rules and standards. And you mentioned Coalition of the Willing. This is, this is a group of countries who believe in free trade and who believe that trade should be ruled by rules and norms and standards and so on. So Do you think the EU, Heather, do you think the EU will follow through?

[00:22:48.28] - Heather Grabbe

I hear a lot of talk.

[00:22:50.00] - Cecilia Malmström

Maybe not joining, but at least—

[00:22:52.29] - Heather Grabbe

Yeah, there's a lot of talk about positive words like a strategic partnership or structural cooperation. So finding some way of working with CPTPP, even if the EU already has bilateral deals with 9 of the members, the idea that this kind of structured cooperation could allow to set new rules, but particularly on digital and goods trade and to keep basically to improve the WTO and to sort of resolve the position of the WTO and maintain rules-based trade. That's really what it's about. I mean, it's true that CPTPP is interesting because rather as President Obama saw it at the beginning, it would actually cover a lot of global GDP. If you had CPTPP and the EU together, that's about 30% of global GDP. Which is really a lot. And it sends a signal that, you know, basically at least 30% of the, of the world's economy want to have a global trading system, want to have a rules-based order, and don't want to have continuous tariff wars. So it's an important signal from that point of view. And you can see the way that New Zealand, Canada, Singapore, as well as Japan, have been keen on pushing for these these closer ties.

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So that's where I think that it could be really valuable because it's, it's very hard to set up new international institutions. And so there are some parts of the global institutional framework which really can't function without the US. But this one can. It's still possible to have the trade among these, these, these countries. And also it ensures that you have a kind of center of gravity in world trade, which could then bring in others as well. So it becomes almost a sort of a mini

WTO, although without, you know, the institutional infrastructure of dispute settlement and so on. But nonetheless, various, various kinds of agreements can be made under that. And I think it's also frankly important that CPTPP now includes the UK because there was this For quite a while after Brexit, there was a fantasy of a Commonwealth trade agreement. You heard from various politicians in the UK, especially pro-Brexit ones, arguing that the UK has, because of its colonial past, privileged relationships with its former empire, and so a Commonwealth trade agreement was there for the having. And very clearly it was not. And countries are not interested in privileged relationships with the UK based on the past, quite the opposite.

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But there is this interesting pragmatic agreements based on current economic interests. And that's where CPTPP is a useful umbrella which doesn't carry that kind of historical baggage, but where the UK could engage with countries on an equal basis and looking at the economic issues of today.

[00:25:49.22] - Cecilia Malmström

Definitely. And as I said, many countries are lining up to apply. And there's also debate going on in, for instance, South Korea on possibly joining as well. And all countries who are members— you talked about the dispute settlement mechanism. The appellate body in the WTO is not functioning, but there is a parallel ad hoc version set up by the EU, the MPI, and all countries of CPTPP are actually members of that. So it could, you know, overlap the institutions in the WTO that are actually functioning and take a responsibility to push a coalition of, a broader coalition of willing forward on this. Let's see if that happens. But if we go back to the EU and UK summit, it was the 19th of May, I think, when the UK and the EU sat together to discuss a lot of things. Ukraine, obviously, environmental cooperation, youth mobility, business, but also trade. And advances were made on the initial trade agreement that they made when the UK left. Is this— how, how, how real? How heavy is it? I mean, there's a lot of formulas, there's a lot of nice language that we recognize from, from international summits and the conclusions and so on.

[00:27:12.19]

We've all been around. How much substance is in this? Is it really going to facilitate— there is an agriculture agreement, for instance, which I know was very important for both the EU and the UK. Is this the end of the trade agreement, or is this part 2 with part 3, 4, 5, and 6 coming at every next summit? What's your view? Who wants to?

[00:27:34.04] - Heather Grabbe

I can, I can perhaps, and then I'm sure David has views on this as well. So I think this is the start of phase 2 in the post-Brexit relationship. So we had, the UK already had one agreement on Brexit itself, which left many things open, which were especially problematic for the UK side because the agreement on trade in animal and plant products was blocked by these issues of sanitary and phytosanitary standards. Also, all the many other things that you just mentioned, Cecilia. So what was very important in this was to move forward on some big issues of principle, which will allow for now much more detailed negotiations on key issues like energy. So I think there were some— the key points of principle that were agreed, and that's where it was more than a statement of intent. It was actually an agreement on this is how we're going to proceed on these these things. So a very big thing that the EU did was essentially to allow the UK to join part of the single market in energy, to allow for electricity trade to be governed by single market rules, which is kind of a form of cherry picking, which is difficult for EU members to accept.

[00:28:49.29]

So that was a big move. And delinking the energy issue, the issue of energy trade from fish, which is very important for some of the EU member states. And that will now allow it to move forward without the deadline of next year applying. And for the UK side, it was very important points of principle were to agree to dynamic alignment with EU regulations and also the jurisdiction of the European Court of Justice. And that too allows for much more UK participation directly in the single market. So in terms of having much deeper trade, it's not just about the sectoral coverage, it's also about about the kind of trade that the UK is able to have, trade with the EU, which is, you know, far from reentering the single market and far from a customs union, but nevertheless is on a basis which will facilitate all kinds of negotiations on other issues going forward. I think the other thing just to say about this is that the UK side was really concerned about about ensuring that there's a better improvement in the whole mood music, in the whole dynamic, because this is a new government that's come in and which, you know, which was not in power during previous negotiations after Brexit.

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So it was an opportunity to reset at political level, a geopolitical level, and for everybody to remind each other how much more the EU countries and the UK have in common than either has with the US on, in terms of trade policy, or Russia and in terms of defense and security. So it was also a reforging of the alliance of open trading economies that want to maintain peace on the continent and want to avoid both trade wars and also kinetic warfare.

[00:30:44.16] - Cecilia Malmström

Do you agree with this, David? You have written a lot about this, obviously, and also the very very thin, difficult balance, but also keeping all the Brexiteers on board in the Parliament and elsewhere.

[00:30:58.22] - David Henig

I was for some reason reminded, as Heather was going through that list, of a few years ago when Facebook was relatively new and you put in a relationship status, and I was for some reason reminded of when people put that, set their relationship status to "it's complicated." And because with the UK-EU reset, I can't— I constantly have this battle of thinking glass half full, glass half empty, of thinking yes, it's been a good reset, or no, there isn't really enough in there. And perhaps that's inevitable, perhaps in the nature of what it was, in effect, a divorce followed by really quite a lot of acrimony. Particularly on the UK side. There was a lot of nastiness in negotiations. So perhaps it was inevitable that the first step forward, even for a new government, was a little bit tentative on both sides. The UK never really set out any kind of vision, didn't really make a strong case in Brussels. But equally, the EU has been struggling to admit that the UK is its second largest trade partner. This is a trillion €1 billion of trade. This is important to the EU as well. And so I think that what we've done, oddly enough, there was some resistance in Brussels to the word reset that the UK was using.

[00:32:22.24]

They didn't really like it. It didn't translate very well. But oddly enough, I think it turns out to be the right word. We have just started the machine up again in a quite tentative way. So we've got the possibility of these agreements on food and drink, on on emissions trading scheme, on the energy market, on youth mobility. These are good things. They have to be negotiated still in the detail. But in principle, that's a good direction of travel that can be built upon. You've got a UK government that's no longer fearful of engaging with Brussels. It didn't preface the summit— look at the things that didn't It didn't preface the summit by throwing a tantrum for the benefit of the, of the UK media, which is what previous governments always did. So I think it is broadly, it is a step forward, but this is going to be a relationship of endless conversation. It's never going to be quite perfect. I think it will be Switzerland, but with an even larger power, with even more importance to Europe's security agenda as well. Something that there is just constant talk about. I'm afraid that rather it proves to me that in the modern trading world, the interdependency between neighbors are so great that ultimately you just have to have a large number of discussions and agreements, whether you have that by being part of the club like the UK was, or whether you have it now from outside.

[00:33:56.12]

There's no real substitute to a significant amount of engagement. And what the UK and the EU have done is to put that into some sort of shape. I think there's a lot more that can be done, that will be done with it. But it's a start. I think that's a relief. And now let's see what can be done in the future. So I'm sort of— I'm still arguing with myself on this. But broadly, I think it's a good thing. Thing.

[00:34:25.04] - Cecilia Malmström

And you think it will be accepted by the Parliament and, uh, and others?

[00:34:29.01] - David Henig

I think it's gone relatively quiet in the UK, uh, since we've not really got so much opposition. It's less the Parliament. Um, one interesting thing, Nigel Farage, the leader of the Reform Party, which has been doing quite well in the UK polls, which is the successor of the UK Independence Party, the Brexit Party, many other hats that he's had had, including in the European Parliament.

[00:34:51.02] - Cecilia Malmström

The Parliament as well, yes.

[00:34:53.10] - David Henig

On the day after the summit, there was a statement made in Parliament. Now bear in mind that the summit had been known about for several weeks, so it could be well known that there was going to be a statement in Parliament. Nigel Farage chose not to be there and said, "I was on holiday, I deserve a holiday." Also bear in mind Parliament was going to have a holiday the following week anyway. That looks like a very deliberate decision on his part not to be there because it would be embarrassing to him to be there. And I think that that shows that some of the toxic nature of this has gone out of UK politics, leaving behind quite a mess to be cleared up. But I just think that that's symbolic, that he doesn't really want to be associated with it.

[00:35:38.01] - Cecilia Malmström

That's criminology on a very high level.

[00:35:40.20] - David Henig

Yeah, but that's what I've learned to do from outside, you know, even when I was a member state representative and you were the trade commissioner was to try to work out what was going on from, uh, from, from outside. So we still try and do that even in think tank world. What does it all mean?

[00:35:56.14] - Cecilia Malmström

Absolutely. Yes, please, Harry.

[00:35:59.18] - Heather Grabbe

No, I was just going to add that, I mean, it also perhaps, you know, Nigel Farage is a very astute politician who's been looking at the polls, and, you know, 62% of British citizens now think that Brexit, um, was a mistake. And that it's been a failure, in fact. And so I think also just seeing that the public has moved on, he's now got this Reform Party, which is going to be campaigning on other issues. So it's a, you know, as David said, this has left a terrible mess behind, but it's something from which Nigel Farage can simply move on.

[00:36:36.12] - Cecilia Malmström

But also if we zoom out to the broader picture, what has happened during this very eventful spring with Ukraine, with the doubts of the markets, American engagement in European security, the sort of bromance between President Macron and the Prime Minister, Prime Minister Starmer, how if this is putting the UK in a sort of, we are involved, we have a leadership role to play here as well because everything concerning sanctions towards Russia and support to Ukraine, there has been a very close cooperation between the UK and the European Union on this. And that took also steps forward at the summit mid-May. So maybe it's— we talk about geopolitics today. It's seen in a broader perspective.

[00:37:25.27] - Heather Grabbe

Yes, it's now very clear how much all of Europe, both the EU members and the UK, as well as Norway and Switzerland, have in common and how much they want to pursue maintaining trade and keeping the peace as well. And that that's something that they've got to work on together. Nobody can afford the luxury of trying to go it alone. There was a Belgian prime minister who said in the 20th century, all countries in Europe are small countries. The difference is between those who know it and those who don't. And so understanding that there are no large countries that can afford to, you know, take on the US or China or other— or Russia or other adversaries on their own is a very important reality check.. And I think that's a good reason to work together on trade as well as on other issues.

[00:38:18.12] - David Henig

It's actually quite, I think, extraordinary that really Keir Starmer was untested on the international stage. And I don't think, I don't think there was much belief that he would be that effective. And yet I think he has been. And I do wonder that comment you make about all countries being small countries. There is perhaps a sense that finally the UK is recognizing that we're not bestriding the world or any such nonsense, that Keir Starmer is really that most unegoist of senior politicians, of leaders, and that perhaps that works quite well on the international stage and has worked quite well for him in just making the UK part of those conversations without trying to dominate And I think— and we haven't talked about the US very much— you have an awful— just as I think the UK is historically underpowered in having people who really understand Brussels and the EU, we are overpowered in the number of people who have strong ties with the US. And I think that the UK has really benefited from that as well. So I think a combination of Starmer's really kind of unemotional and undramatic approach combined with some real depth of expertise on the US has given the UK a position that I don't think anybody expected really 12 months ago.

[00:39:44.12]

I don't think Keir Starmer was seen as he would be much of a player internationally.

[00:39:50.23] - Cecilia Malmström

Hmm, interesting. Okay, let's move to the US then, because after the so-called Liberation Day in April, all countries or lots of, most countries of the world, including some inhabited islands with only penguins, were back with reciprocal tariffs. And there has been different deadlines set and then they have been paused and then installed again. And there has been new tariffs on, on, on specific sectors. And then, as you both have mentioned, it's not only tariffs that, that has made President Trump upset. It's also a general feeling of US being unfairly treated by regulations, by VAT, by different taxes, digital taxes, and also the especially the EU, different regulations on tech and on food security, et cetera. But the UK managed quite quickly compared to every other and is so far the only country who has achieved a deal with the UK, with the US on this. Still lots to be worked out. And we saw in Canada at the G7 summit lately that it was still an unsecured, whether the steel tariffs are still on or not, different messages from the US administration. But if you look at the agreement, one could wonder, it's good to have an agreement of course, but isn't the UK actually worse off than before Liberation Day?

[00:41:16.11] - David Henig

Well, where is your starting point here? So everyone's worse off than—

[00:41:23.12] - Cecilia Malmström

Everyone is worse off, yes, that's correct.

[00:41:25.15] - David Henig

Came in, and I think that the US, sorry, the US, the UK position was we think that we're We're stuck with the 10% tariff. Also, we don't really believe a word of any agreement that we sign with Trump, but we think we'd better try anyway. And I just think the UK probably understood this US administration a little bit quicker than others. Because I think at the time, a lot of people were saying, why don't you chip away at that 10%? Well, now more and more countries are realizing that 10% is probably here to stay. So what the UK was able to do, understanding as well that we didn't have so many industries at stake here, we really had some luxury cars that were important to us, maybe a little bit of steel, aerospace products. We don't actually export that much to the US that was really going to be hit that badly. But we focused in on those things. And I think in the other way was to sort to sort of be clear to President Trump that we were ready to do a deal. And then presumably, I mean, given that what we offered to the US was bioethanol, which nobody had even considered was an issue until the day before, sort of thing, or even on the day, just showed a bit of flexibility when presumably somebody from a bioethanol producer in the US suddenly phones up Trump and says, you can do this deal.

[00:42:51.00]

And the UK was only too happy to do it. There's an awful lot in that. The 5 pages of future potential commitments, some of which would be deeply uncomfortable with the UK, which around longstanding US asks. We know about the Digital Services Tax. There's different parts of wanting the UK to move away from the EU regulatory orbit again. Well, those may not in fact happen. We just wanted to focus, I think, on just a handful of things and get a deal on that basis. So I think it works for really as long as it works for. Take each day as it comes. I don't think you can do anything else with President Trump in the current mood, who is really making it up as he goes along. I think the UK has done OK so far, but each day you have to test that because tomorrow it may all change.

[00:43:44.25] - Cecilia Malmström

Yes, and it's all about having a deal, whatever is in it. A deal is done.

[00:43:49.05] - David Henig

But then there's still the Sorry, it gives some relief to some people for some time. Well, that's probably as good as it gets in the absence of any evidence anything better is on offer.

[00:44:01.26] - Cecilia Malmström

But the steel tariffs are on, right? Because they were off in the first draft, but then I think the administration said that they're not in the UK deal.

[00:44:10.18] - David Henig

Yeah, there is actually, uh, there is some substance behind that, which is that some UK steel exports are actually substantively coming in coming in from other countries such as India and just— and then there being going through some work in the UK, but not actually that much. So it's not an entirely unreasonable point from the US to ask to check about that before that part gets implemented.

[00:44:38.27] - Cecilia Malmström

There's a question from the audience here from Alejandro Jara, who asks, will the UK abide by the MFN obligation with regards to the concession made here, the most favored nation It's not, right?

[00:44:51.29] - David Henig

I mean, I've written that I don't think that anybody is going to be able to do a deal with the US and abide by MFN. So I think we've almost got to treat the US as if they've gone rogue, which is what they have, and just deal with them and try to limit— I mean, if the UK can limit the damage to merely the beef quota and the bioethanol, that's— so I think there's a scale here. And so my take on it is a little bit like now. Was it you? I don't want to speak out of turn. Somebody, somebody wonderfully created a new tariff line for the US in Trump's first term that essentially just did Maine lobsters. Um, yes, the UK's done a little bit the same. If you can limit it to a very small amount, I think we can make that, that up later. So I think there is a difference between a fairly small MFN breach and a huge one where we would just completely, uh, do what, do what the US wants That's a really fine line. So no, we're not following MFM, but we're probably not breaching it really badly, I suppose.

[00:45:52.17] - Cecilia Malmström

What's your view on this, Heather? Is it— well, it was what was in the cards to get for the moment.

[00:46:00.19] - Heather Grabbe

Well, everybody's starting to understand how to deal with Trump 2, which is a bit different from Trump 1. Trump 2 is, is Yeah, Trump too, yeah, much more aggressive on the trade, on the tariff side, but also much keener on having deals. Just, it's almost like the quantity of deals rather than the quality of the deals. And so these very superficial deals with very real, you know, with a few concessions upfront, but nothing very major, that's clearly enough to satisfy him. And he clearly wants a continuing game. He doesn't want a deal which finishes the matter. He wants a series of deals which essentially becomes just a different form of diplomatic engagement, a different way of playing geopolitics. So basically, by offering deals or a series of deals, then countries can get a reprieve on the tariff threat and on different things. And that's a game that the EU now has to learn how to play, which is harder because that's not traditionally how the EU has treated trade deals. They've been much more serious about it. But I think they're now catching up. They're getting with the program. And that's what they're aiming for.

[00:47:08.26]

I think they're seeing that it's the key thing is to get one done before the deadline in July set for, for the tariffs. They, I think they have also learned some lessons from the fact that the UK successfully resisted US pressure to scrap its digital tax, the Digital Services Tax, which would be extremely important for the EU not to try and deconstruct its digital regulation. Also VAT and the UK they didn't in fact accept American food and product safety standards. So although there was mention about beef, it was about quantity, it wasn't about food standards. So, you know, chlorinated chicken and hormone-treated beef are as unpopular in the EU as they are in the UK. So these are areas where you can expect that they, you know, there won't be even attempt to try to go into that area. We also might see the EU trying to play the same trick that Jean-Claude Juncker Juncker, the Commission President, did with the Trump administration when he offered to do things that either the EU was already doing or had zero intention of doing, but it was enough just to sort of talk about them. So, for example, we offered to buy more liquefied natural gas from the US, but the EU will have to do that anyway because of getting out of Russian gas.

[00:48:28.19]

Also offering, of course, to buy more arms, to buy more weaponry, and with the deal today today at the NATO summit of many European countries now promising to spend 5% of their GDP on defense. That could sound quite attractive to American arms manufacturers. So I think

that there's— now we can see where the landing ground is. The landing ground is actually quite big for some kind of deal, but it won't be by any means the last deal. It'll be just part of a long game. Game with Trump, which won't necessarily stick for any predictable length of time, but so much better to engage with Trump and to be able to try and influence him in some way rather than him talking to Putin or somebody else than to say no upfront. But I think the tricky part will be about China. If the US tries to put pressure on the EU, as it tried to do with the UK, on keeping Chinese investment out of, and out of Europe. I think that could be really problematic. The language that we see in the UK-US text about meeting US requirements on security of supply chains of steel and aluminum, the nature of ownership of relevant production facilities, that's pretty ominous for all countries, UK-US, but also others like Vietnam and Cambodia, that the US might really try to avoid try to put pressure on imposing restrictions on Chinese investment.

[00:49:57.23] - David Henig

But I mean, interestingly, we read today that Keir Starmer may be going to China in the autumn. Somehow, the US is not cracking down on the UK and China in a way that I'm not sure will work for others. I'm also not sure that this trade deal that the UK did with the US will work for others because we really have a niche car industry. It's not— it would not be satisfactory for German carmakers or Koreans or Japanese. It will work because the UK is exporting premium cars. So there is a sense that the UK is getting, getting off lightly because for reasons that nobody can quite explain, including himself, Kirstahmer appears to be getting on with President Trump.

[00:50:39.29] - Cecilia Malmström

Well, there's a special relationship, but it is true that after the conclusion of the of the agreement, the Chinese official version, and they were very explicit in this. They were very upset about what the agreement would mean for UK-Chinese relations. But maybe if the Prime Minister is going there, there could be a discussion and a reset of that. So the question is, of course, the EU can learn a little bit from the UK, even if the template will be different. And what happened last time, I was actually with Jean-Claude Juncker in the room where it happened that time. And some of it, of course, can be recycled in the recycling economy, but it has to be much broader. And you could also bring in, you know, a working group on a review of the tech rules that is going to be done anyway, and things like that that could appease the tech industry, because that has been a big complaint, even if it has lowered a little bit now after Musk leaving the agreement. There are two questions on this from the audience, and I'll read I'll read them both and you can answer. You can see them.

[00:51:50.10]

The one is from Michael Anderson asking, what happens with US-UK mini trade deal in the new presidential administration regardless of whether a Democrat or Republican president? How does this impact decision-making for companies navigating the current tariff environment in the longer term? That's very specific for this. And then there's a question of how would the emerging US-UK deal affect the Windsor Framework for Northern Ireland? If at all.

[00:52:16.19] - David Henig

So, yeah, on the Windsor Framework, everything is always complicated with the Windsor Framework, but it shouldn't—

[00:52:24.12] - Heather Grabbe

I mean, the—

[00:52:25.23] - David Henig

but for example, on the quotas, that's always a problem. But de facto, I think it ends up being that the— those quotas are going to end up coming into Great Britain rather than Northern Ireland from the US, though that's never quite certain. But I I suspect that's what's going to end up happening. On post-Trump, I mean—

[00:52:46.28] - Cecilia Malmström

Yeah, the question was how companies can navigate this on a longer term because they might see a switch in the White House.

[00:52:53.29] - David Henig

I've seen a little bit of discussion. I think that— no, I honestly think that nobody knows. To be honest, I'm not sure how a company can navigate tomorrow, let alone what's going to happen in 3 and a half years' time. And I'm sorry, that's not a very good answer. But this level of uncertainty is just a single level of crazy. I mean, I think we all hope that whatever happens next, in some way the US roll back some of this. And I think they will roll back some of the more egregious parts of it. But heaven only knows what happens to the rest. And what's the status of any agreement we come to, to be honest? Again, what's the status of it tomorrow? Never mind 3 and a half years' I don't think we're thinking in that way. And I'm, you know, I think this is where the UK has a certain advantage. I know that we're all smiles and we're not saying this in public, at least our politicians are not saying it in public. But I don't think that the— I think the UK

government is well aware of the limitations of this agreement and is keeping quiet on this and just hoping that it sticks.

[00:53:57.09] - Cecilia Malmström

Would you like to add anything on this, Heather?

[00:54:02.05] - Heather Grabbe

Yeah, exactly. But let's not forget that, you know, after Trump won, you know, imposed tariffs on steel and aluminum, the Biden administration maintained them. And there is a significant degree of agreement between parties in the US on China. China policy is perhaps the area where there's greatest bipartisan artisan support. So I think these pressures on trade partners over their own relationship with China is going to continue, and that's going to be a really difficult thing to navigate regardless of who's in the White House next.

[00:54:37.23] - Cecilia Malmström

Absolutely. Yes, the steel tariffs were trying to— they were transformed into quotas, but they still do the same damage for the companies, of course. And that was a negotiation that was ongoing during the four Biden years, but nothing really happened out of that. So, so absolutely very fair point. If we end up a little bit where, where we started later this This week the UK government will present some sort of trade strategy. Now, of course, everybody's trying to peddle and survive the current acute uncertainties and tariffs coming and going and deals being made or unraveled and so on. But if you were to speculate a little bit, where does the UK see the trading system going on a more long-term basis, or at least on a medium-term basis? It is, as you both have mentioned, a firm believer in the multilateral system. It has been an active member. Member of the WTO and is trying to be loyal to that, even if the MFN maybe on a small part is not fully compliant. But where do you see the UK would like this to go? Some talk about a total revival of the, of the global trading system, or, and some see that, well, now it is chaotic, but it will calm down in a couple of years slash when there's a new president in the US.

[00:55:50.20]

Where do you think this is going if you were to speculate? Bit.

[00:55:54.06] - David Henig

Okay, well, I'm going to try my best, uh, on the, on the, on the basis of various conversations I've had, but without absolute certainty. You mentioned earlier the UK— actually, the UK hasn't joined the MPIA, the appellate body, uh, replacement in the WTO.

[00:56:09.18] - Cecilia Malmström

Sorry, I'm apologize.

[00:56:11.29] - David Henig

We may announce tomorrow that we're going to. That's certainly one of the pieces of speculation as to what the— as, as to what may happen. And I think that more broadly After listening to this, of course they will. Um, well, I think it may be written already, but more broadly, I think it points towards almost a bit like the— what I was saying earlier. This is going to be a slight maturing of the UK's post-Brexit situation. We're expecting a pretty good analysis of where the UK has got to, where the— what the UK's role in the world is, which accepts that the UK is a middle power and and accept certain realities of the world, like that we're neighbors of the EU. And then off that tries to build a set of actions that again goes beyond the traditional free trade agreement and finds a wider set of initiatives to take, all of which are aimed to broadly seek to keep markets open, seek to maintain business confidence that they can invest in Safara as is possible. There are one— there's some other chatter about headline, headline sort of announcements that may be made or not, which I'm not sure I fully believe.

[00:57:26.27]

So I'm going to— I'm going to hold off on those. So I think it's going to be a relatively solid piece of work. I don't think it's going to give a very different sense of where the UK is going in the future. It won't be so, I don't think, any long list of new FTA partners or what exactly we're going to do with who. But I think it will ground things a little better for the UK in what is a realistic approach going forward on trade. That's certainly what I'm hoping for.

[00:57:52.24] - Cecilia Malmström

Thank you, Heather.

[00:57:55.02] - Heather Grabbe

So I think the UK will definitely try and hold on for as long as possible to the, you know, the rules-based trade order and will work with any country that wants to do that. The question is whether the political winds will allow this to happen with all of the UK's various trade partners.

So we can see the way that Trump-style tariffs could become more popular in other countries, that there's protectionism in quite a lot of countries where the populist radical right comes to power. And that's also in some of the EU countries. Remember that trade is negotiated, of course, at the level of the trade commissioner as Cecilia was, but that doesn't mean that all of the countries are very keen on necessarily maintaining global trade. We see the way that populist parties getting into power may really question the global trading system. And a lot depends on what happens to the US economy now. If Trump's tariffs are seen as bringing concessions from other countries, if they're seen as being being, bringing alternatives to various forms of taxation. If they can be presented in any way positively, then it may be that in other countries the same kind of logic will be used and a turn against trade could become more widespread.

[00:59:17.09]

So I think the political reaction is going to be absolutely key. And that's why these kinds of deals with, for example, India are really important to maintain the idea that trade is beneficial for all trading partners. The idea, you know, the basic economic principles around free trade, because we could be heading towards a seriously mercantilist era, a seriously protectionist era with the idea that, okay, you know, it's better to protect your infant industries, it's better to maintain tariffs on trade partners to prevent them from developing their own economic successes. So I think it's not a foregone conclusion that this will work. I think the UK will hold on as long as it can because that's very much the tradition. And, you know, since the Corn Laws, that there's been a debate about this in the UK, but less than in other countries. But if Marine Le Pen were to become president of France, she's very protectionist. The AfD in Germany, not too keen on all of this. There are plenty of others who would follow in quite a Trumpian sort logic about trade. So this is where debates like the one we're having today will be really important for the political debates at domestic level as well.

[01:00:32.17] - Cecilia Malmström

Absolutely. A lot to follow up on. We have reached the hour. David Hanig, Heather Grabbe, thank you so much for your contribution. It's been a very interesting conversation and we will look at what happens later this week with the new strategy from the UK, but also how the different trade agreements involve the ones we were talking about and others in negotiations. So thank you also to the audience for attending.