

BACKGROUND

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Freedom from the EU: Why Britain and the U.S. Should Pursue a U.S.–U.K. Free Trade Area

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Abstract

A referendum on British membership in the European Union is scheduled for 2017. EU supporters argue that exit from the EU would hurt Britain's economy and, in particular, its ability to negotiate trading arrangements with the rest of the world—a responsibility currently exercised by the EU on behalf of all of its member states. But there is every reason to believe that Britain, the world's sixth-largest economy, would be able to negotiate trade agreements independently. If Britain does decide to leave the EU, one of its central priorities should be to negotiate a modern free trade area (FTA), based on sovereignty and freedom, with the United States. This is a goal that the U.S., which should abandon its policy of supporting the EU at the expense of the sovereignty of its member nations, should also champion.

The United Kingdom is considering leaving the European Union, and a referendum on British membership is currently scheduled for 2017. The most common argument against a British exit from the EU is that it would be bad for Britain's economy and, in particular, would damage its ability to negotiate trading arrangements with the rest of the world—a responsibility currently exercised by the EU on behalf of all of its member states.

This concern is unfounded. There is every reason to believe that Britain, the world's sixth-largest economy, would be able to negotiate trade agreements independently. If Britain does decide to leave the EU, one of its central priorities should be to negotiate a free trade area (FTA) with the United States, a goal that the U.S. should also champion. An FTA would be good for the economies of both nations. It would demonstrate their commitment to promoting

KEY POINTS

- The U.S. and the U.K. should negotiate a free trade area based on the principles of national sovereignty and economic freedom.
- For both nations, the barrier to this goal is the European Union. Britain cannot negotiate unless it leaves the EU, while the U.S. has wrongly supported the EU over the sovereignty of its member nations.
- The U.S. policy of using Britain as its Trojan Horse in the EU is wrong in principle and doomed to failure in practice.
- The U.K. must ensure that its 2017 referendum on EU membership offers a real choice. There is no reason why the U.K., the world's sixth-largest economy, cannot negotiate trade arrangements outside the EU.
- The benefits of an Anglo-American free trade area would be both economic and political. It would insulate the U.K. from the damaging effects of further EU regulatory interference and signal the two countries' shared political commitment to their close relationship.

This paper, in its entirety, can be found at <http://report.heritage.org/bg2951>

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economic freedom and be a further manifestation of their close and enduring relationship. It would also be an opportunity for both nations to negotiate a modern free trade area based on sovereignty and freedom, which would establish a standard that should be applied to other trade negotiations.

The obstacles to such an agreement are political. For the U.K., the obstacle is that, as a member of the EU, it does not have the legal authority to negotiate a free trade area on its own. If the U.K. is to regain that authority, it must leave the EU. If it does so, it will be able to regain the broader control over its trade, economy, and political future that it has been denied in increasing measure since it joined the EU in 1973. For the U.S., the obstacle is that the Obama Administration wants the U.K. to remain in the European Union, in part to facilitate the negotiation of the Transatlantic Trade and Investment Partnership (TTIP), a trade agreement between the U.S. and the EU that poses significant concerns and is likely to be long delayed.

Thus, the barrier that is blocking a U.S.–U.K. free trade area is the European Union. Since the early post-war years, the U.S. has supported European integration and the EU’s efforts to subordinate democratic and sovereign nations to supranational control. This policy is a mistake. It is not an approach that the U.S., as a democracy, would accept for itself, and the U.S. should therefore not urge other democracies to go down a path that leads to the loss of national independence. The ultimate goal of the U.S.–U.K. free trade area, therefore, is to serve as both a symbol of and a real contribution to a shared Anglo–American rejection of supranational control and shared belief that government must be based on national sovereignty and freedom.

The Obstacles to a U.S.–U.K. Free Trade Area

The idea of free trade between the U.S. and Great Britain is so obvious and compelling that many methods have been suggested to bring it about. One of the most obvious approaches is that once Britain has left the European Union, it should simply join the North American Free Trade Agreement (NAFTA), the free

trade area among the U.S., Canada, and Mexico. This approach was regularly suggested in the years after NAFTA came into effect, and it remains a popular option.¹ The idea has two advantages: An agreement would not have to be created from scratch, and NAFTA has none of the sovereignty-infringing characteristics of the European Union.

A considerable part of the progressive American Left likes the European Union because it shares the union’s opposition to national sovereignty, strong national defense, and economic freedom.

But the disadvantages of working through NAFTA outweigh the advantages. NAFTA entered into force in 1994 and is now 20 years old. It predates the rise of the Internet, and that does not suit nations like the U.S. and Britain, which increasingly conduct their trade in services online. Moreover, while Britain could apply for accession under NAFTA’s Article 2204, accession would only follow negotiations with the NAFTA Commission, composed of representatives of the U.S., Canada, and Mexico, which could be complex. Furthermore, it is possible that a British application would trigger a full-scale renegotiation of the entire agreement, and the outcome of that renegotiation might not be favorable for either the U.S. or the U.K. In short, the NAFTA option is both harder and less attractive than it appears, and it overlooks the advantages of negotiating a modern, bilateral agreement directly with the United States.

The fundamental obstacles to a U.S.–U.K. free trade area are political. On the U.S. side, the obstacle is simple: The Obama Administration, like most other post-war U.S. administrations, wants Britain to remain a member of the European Union. Showing any willingness to negotiate a free trade area with the U.K. would be tantamount to approving of Britain’s exit from the union. It is therefore extremely unlikely that the current administration will make a

1. Andy McSmith, “We Back Britain Joining Nafta, Says US Senator,” *The Telegraph* (UK), July 5, 2000, <http://www.telegraph.co.uk/news/worldnews/europe/1346773/We-back-Britain-joining-Nafta-says-US-senator.html> (accessed July 30, 2014). See also Iain Murray and James C. Bennett, “Britain’s Future Lies with America, Not Europe,” *The Wall Street Journal*, December 29, 2011, <http://online.wsj.com/news/articles/SB10001424052970204791104577110163558996698> (accessed July 30, 2014).

move in that direction. Indeed, the Administration's approach so far has been to use the threat of denying Britain the trade advantages that will supposedly flow from a TTIP to encourage it to remain in the EU.²

This is a shortsighted and destructive approach, and it rests on several fallacies. The first and narrowest fallacy is the belief that if Britain remains in the EU, it will be able to push the union into being more economically free—that is, ruled by a less top-down, bureaucratic, and centralizing government—than it would otherwise be. This is essentially an approach of seeking to use Britain as the U.S.'s Trojan Horse inside the European Union. The disadvantages of this approach are grave. Worst of all, it subordinates Britain's interests and right to govern its own affairs to the U.S. This naturally alienates British patriots and encourages them to view the Anglo-American alliance with a jaundiced eye. To put it simply, by backing the EU, the U.S. angers many Britons who are generally inclined to like the U.S. as a nation and to support conservative principles.

In the context of the TTIP, the U.S. emphasis on the U.K.'s role is not likely to pay off for either nation. The launch negotiations in 2013 framed the TTIP as a "comprehensive" and "ambitious" undertaking that would "move forward fast" and "make rapid progress,"³ but the only thing that has happened rapidly is that the air has gone out of the balloon. Largely because of opposition from the Left, the Obama Administration's interest—which was never robust—in promoting the free trade agenda has waned considerably.⁴ The slackening of the Administration's enthusiasm for the TTIP and the precedent of the

World Trade Organization's stalled Doha Round only emphasize the difficulties inherent in negotiating a comprehensive trade agreement. While a less comprehensive agreement could produce gains for both the U.S. and the EU, it is also less likely to address areas such as agriculture, where the U.K. suffers disproportionately from EU control.

Moreover, both in the TTIP negotiations and in general, EU supporters understand the game perfectly and are therefore able to discount British negotiating positions, which they can attack as reflecting only American desires. The very fact that the U.S. is relying on the U.K. to strengthen its hand inside the EU also points out that neither the EU itself nor the U.S. sees the EU as aligning easily with U.S. interests. Finally, and in a practical sense most damaging of all, the complete failure of the British government, even after the stunning results of the 2014 European elections, to block the selection of the Euro-federalist Jean-Claude Juncker—who stated that "when the going gets tough, you have to lie"—as president of the European Commission is a clear sign that the U.S. strategy of relying on the U.K. to carry its water in the EU will not work.⁵

The broader misconception on which U.S. policy is based is the belief that supporting the EU is in the interests of the United States. Between 1946 and 1989, the U.S. promoted closer cooperation between the European democracies, seeing this closeness as an economic and political contribution to winning the Cold War. After 1991, when the Cold War was conclusively over, the policy of European integration was no longer in the U.S. interest.

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2. Julian Borger, "EU Exit Would Put US Trade Deal at Risk, Britain Warned," *The Guardian*, May 27, 2013, <http://www.theguardian.com/business/2013/may/27/eu-exit-risks-us-trade-deal> (accessed July 9, 2014).
 3. News release, "Statement by President Barroso on the EU-US Trade Agreement with U.S. President Barack Obama, the President of the European Council Herman Van Rompuy, and UK Prime Minister David Cameron," European Commission Speech No. 13/544, June 17, 2013, http://europa.eu/rapid/press-release_SPEECH-13-544_en.htm (accessed July 1, 2014).
 4. See, for example, Bryan Riley and Terry Miller, "Congress Should Get Smart and Cut Tariffs to Boost Trade Freedom," Heritage Foundation *Special Report* No. 146, October 23, 2013, <http://www.heritage.org/research/reports/2013/10/congress-should-get-smart-and-cut-tariffs-to-boost-trade-freedom>; Michael McAuliff, Sam Stein, and Sabrina Siddiqui, "Joe Biden Admits Vast Obama Trade Deals Are On Hold," *The Huffington Post*, February 14, 2014, http://www.huffingtonpost.com/2014/02/14/white-house-trade-deal_n_4790338.html (accessed August 19, 2014); and Daniel R. Pearson, "The Obama Administration's Trade Agenda Is Crumbling," *Cato Institute Free Trade Bulletin*, March 19, 2014, <http://www.cato.org/publications/free-trade-bulletin/obama-administrations-trade-agenda-crumbling> (accessed July 1, 2014). Note also the EU's condemnation of the U.S.'s weak initial offer in the TTIP negotiations. While the weakness of the U.S. offer is, of course, partly a matter of negotiating tactics, it is also true that an Administration that was genuinely interested in freer trade would aim high. See Krista Hughes, "EU Trade Chief Says U.S. Tariffs Offer Falls Short in Talks," *Reuters*, February 18, 2014, <http://www.reuters.com/article/2014/02/18/us-usa-trade-ttip-idUSBREA1H22B20140218> (accessed July 9, 2014).
 5. Leigh Phillips, "Attacks Mount Against 'Master of Lies' Juncker," *EUobserver*, May 10, 2011, <http://euobserver.com/economic/32294> (accessed July 9, 2014).

Unfortunately, the U.S. did not turn away from this approach. Instead, it continued to back the building of what was clearly a European super-state that was based on denying national sovereignty; that tended to see itself not as a pillar of NATO but as an alternative to it; and that emphasized top-down regulation and supranational bureaucracy, not economic freedom and limited government. The result has been the increasing economic stagnation of Europe, the rise of European neutralism, and a steady transfer of political power from national governments to Brussels. U.S. support for European integration was based on the hope that it would promote prosperity and democracy; in reality, it has promoted economic stagnation and rule by bureaucrats.

By joining the EU in 1973, the U.K. signed away its power to negotiate trade treaties. Many in the U.S. still conceive of the EU as merely a European free trade area.

Continued U.S. support for the EU reflects a fit of absence of mind: It has become a habit based on beliefs that were already outmoded 20 years ago. It also, regrettably, reflects the fact that a considerable part of the progressive American Left likes the European Union because it shares the union's opposition to national sovereignty, strong national defense, and economic freedom. Given this reality, it is not just wrong as a matter of foreign policy for conservatives to continue to support the European Union; support for the EU directly contradicts the policies that conservatives seek to advance in the U.S. itself.⁶

Of course, the preferences of the U.S. or of particular U.S. administrations do not shape the world. In the end, the question of continued British EU membership will be decided not in Brussels or Washington, D.C., but in Britain. If Britain did leave the union, the U.S. and the rest of the world would be confronted with a new fact. In that situation, the U.S. would have to decide whether an FTA

with the U.K. would or would not be in its interest. In light of the close U.S.–U.K. relationship in many realms, particularly the economic one, and in light of the U.S.'s broader record since 1945 of promoting freer trade, it would be shocking if the U.S. did not take the pragmatic decision to negotiate an agreement with Britain.

On the U.K. side, the obstacles to a U.S.–U.K. free trade area are even clearer. First, there is a fundamental legal issue. By joining the EU in 1973, the U.K. signed away its power to negotiate trade treaties. This fact is less widely appreciated in both the U.S. and the U.K. than it should be.

Many in the U.S. still conceive of the EU as merely a European free trade area. That is doubly incorrect. The U.K. wanted European cooperation to take the form of a free trade area, but it was rebuffed in the late 1950s by France. The EU therefore went down a different road: supranational control of the formerly independent trading policies of its member nations. Moreover, the EU is not an FTA as Americans conceive of it; especially in the realm of agriculture, it is a managed market that limits the ability of its members to trade freely with the outside world.

The creation of the EU did tremendous damage to the U.K. for the simple reason that the U.K. had—and, in spite of the EU, continues to have—much wider trading relations outside Europe than it has with the continental nations. As a food importer, it had nothing to gain from the creation of a more closed agricultural market that curtailed its traditional system of imports from the rest of the world for the sake of forcing it to contribute to and buy from continental producers through the Common Agricultural Policy. As a trading nation more broadly, it sacrificed closer ties—existing and potential—around the world for better access to the EU's markets. That was not simply an economic sacrifice; because the EU now makes U.K. trade policy, it was also a sacrifice of the U.K.'s political freedom.

Undoubtedly, the U.K. gained from having tariff-free access to EU markets, but the relative and ongoing economic decline in the EU's share of the world economy means that the relative importance of U.K.–EU trade, though still very significant, has decreased,

6. The Hon. Jim DeMint, "Britain and the U.S.: Two Peoples United by an Attachment to Self-Determination," *Heritage Lecture* No. 1232, July 2, 2013, <http://www.heritage.org/research/reports/2013/07/britain-and-the-us-two-peoples-united-by-an-attachment-to-self-determination>.

is decreasing, and will continue to decrease.⁷ Trade with the continent will always be important to Britain, but the EU was a trick of history played on the U.K.: Though EU membership in 1973 was sold as a path to prosperity, it actually locked Britain into the EU at the moment when the EU's growth slowed and Britain would have benefited from being able to trade more freely outside the EU. That dilemma has become increasingly sharp with the economic rise of Southeast Asia and East Asia since the 1980s. In the coming years, the opportunity costs of EU membership—that is, the costs of having access to the EU, which in turn prohibits Britain from negotiating outside the EU—will only grow.

The most difficult aspect of a U.S.–U.K. FTA is that, as a result of its 41 years of membership of the EU, Britain has no experience with negotiating trade agreements on its own.

It makes no sense for the U.K. to focus solely on free trade with the U.S. Once outside the EU, the U.K. will want to negotiate FTAs with as many nations as possible. A U.S.–U.K. free trade area would be a very important part of that policy but by no means all of it. Much current comment on an FTA between the two countries is essentially political and is focused not so much on the merits of a U.S.–U.K. deal itself as it is on trying to ensure that the U.K. remains in the European Union by denying that the U.K. has any alternatives.⁸

If the EU is the only avenue that offers the U.K. any possibility of negotiating satisfactory trading arrangements, the argument goes, the U.K. will have

to stay in the EU, regardless of how unsatisfactory it is and will increasingly become. Similarly, if the EU is essential to the U.K.'s prosperity as a trading nation, parties like the U.K. Independence Party, which advocate U.K. withdrawal from the EU, do not fairly represent British interests. For believers in the EU, a U.S.–U.K. free trade area is undesirable not because it cannot work, but because it can.

But the argument that Britain, as a non-EU member, would not be able to negotiate satisfactory trading arrangements has no substance. Certainly, there are many ways that Britain could leave the EU and many possible ways to govern the continuing U.K.–EU trade after Britain's departure, but the example of the European Free Trade Association (EFTA) shows that concerns about Britain's ability to negotiate once it leaves the EU are unfounded. EFTA, whose four members are non-EU states Iceland, Liechtenstein, Norway, and Switzerland, has negotiated many free trade agreements. While the EU's record of concluding such agreements (outside Europe, it has 18 FTAs) is comparable to that of the U.S. (which has 20 FTAs), it is worse than that of EFTA, which has FTAs with 35 nations.

The EU is very good at announcing the commencement of FTA negotiations but less good at concluding agreements. For example, to the frustration of many in the U.K., including Prime Minister David Cameron, the EU's negotiations with India are "far from being concluded," while negotiations between EFTA and India are proceeding.⁹ EFTA member states have signed FTA agreements with China. As Conservative member of the European Parliament Daniel Hannan recently noted, were it not an EU member, "Britain would have signed a bilateral free trade agreement with the United States decades ago."¹⁰ Given the fact that the U.S. has free trade agreements with many nations that have much

7. This is true for the entire EU, not just for Britain. See Giulio Mazzolini, "Chart: Sharp Decline in Intra-EU Trade over the Past 4 Years," *Bruegel*, August 27, 2014, <http://www.bruegel.org/nc/blog/detail/article/1420-chart-sharp-decline-in-intra-eu-trade-over-the-past-4-years/> (accessed August 29, 2014).

8. For one such example, see Sam Fleming, "UK 'Would Not Be Freer' After Leaving EU," *The Financial Times*, June 8, 2014, <http://www.ft.com/cms/s/2/d251d340-eee9-11e3-acad-00144feabdc0.html#axzz38y8Z5CZH> (accessed July 30, 2014).

9. "India-UK Free Trade Agreement Should Progress: David Cameron," *The Economic Times (India)*, November 14, 2013, http://articles.economictimes.indiatimes.com/2013-11-14/news/44075240_1_openness-iim-calcutta-students-trade-barriers (accessed July 30, 2014). See also Ritesh Kumar Singh and Prachi Priya, "What's Holding Back the India-EU FTA?" *The Diplomat*, June 17, 2014, <http://thediplomat.com/2014/06/whats-holding-back-the-india-eu-fta/> (accessed July 30, 2014).

10. Daniel Hannan, "Ten Myths About Britain's Relationship with the EU," *The Daily Telegraph*, June 26, 2014, <http://blogs.telegraph.co.uk/news/danielhannan/100277807/ten-myths-about-britains-relationship-with-the-eu/> (accessed July 30, 2014).

smaller economies than that of the U.K. and are considerably less vital economic partners and strategic allies, Hannan is certainly correct.

Once the U.K. has left the EU, the main barrier to negotiation of its own trading arrangements with other nations will certainly not be Britain's attractiveness as a trading partner. It is easy to forget that Britain has the world's sixth-largest economy and by 2030, on current trends, will have an economy larger than Germany's.¹¹ Of course, projections of this sort are merely forecasts, but the basic point remains: Britain has one of the world's largest economies, and it is growing faster than most other developed economies. There is no reason why such a nation should be unable to negotiate satisfactory trading arrangements. The most important barrier will be that, as a result of its 41 years of membership of the EU, Britain has no experience with negotiating FTAs on its own.

If the U.K. is to do this effectively after leaving the EU, it needs to start preparing now. This is all the more vital because of the referendum on continued EU membership that Prime Minister David Cameron has promised to hold in 2017 if he is returned to office in the 2015 general election. If that referendum is to have any meaning—in other words, if the choice of leaving the EU is to be a real one—Britain must treat the negotiation of agreements outside of the EU as a genuinely live option. To do that, the U.K. needs diplomats who are prepared to negotiate, as well as to make decisions, about which nations it will seek to negotiate with first.

Failing to prepare in this way will mean that in the referendum, the EU status quo will be pitted against the option of exit into a future for which no preparations have been made. Such a referendum would not offer a genuine choice. It would be the clearest possible sign that the British people have been denied what the referendum appears to promise them: the right to choose their own political future.

The Economic Benefits of a U.S.–U.K. Free Trade Area

Economic freedom is the fundamental right of every person to control his or her own labor and property. As such, it is a natural right and is closely associated with other human rights, such as the existence of a free press, freedom of religion, and freedom from arbitrary power. It also has important practical consequences: Higher levels of economic freedom correlate with greater prosperity as well as with many other desirable social outcomes.

Economic freedom includes having the ability to trade freely, both internationally and domestically; the voluntary exchange of goods is central to the functioning of markets and to the increases in productivity that ultimately lead to greater wealth.¹² After World War II, the U.S. led the developed—and, increasingly, the developing—world to liberalize international trade, which contributed powerfully to making this era the most prosperous in the history of the world.

Precisely because this U.S.- and British-led effort has been so successful, barriers to trade based on tariffs between the U.S. and Britain are low. The gains from their elimination through the creation of an FTA, while significant because of the size of the trade, would not transform the economy of either nation. In order for a trade agreement to generate larger gains, it must address what are known as non-tariff barriers (NTBs) to trade. There is no universally accepted definition of NTBs, but they are “generally defined as policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.”¹³ One study has estimated that free trade with the U.S. that addressed both tariff and non-tariff barriers would add about £10 billion (approximately \$16 billion) to the British economy when the area came fully into effect, but such estimates can only be illustrative,

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11. The World Bank, “GDP (current US\$),” <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD> (accessed July 30, 2014). See also “Cebr’s World Economic League Table 2013 Shows China Overtaking US in 2028; UK to Overtake Germany ‘Around 2030,’” Centre for Economics and Business Research (Cebr), December 26, 2013, <http://www.cebr.com/reports/cebr-world-economic-league-table/> (accessed July 30, 2014).
 12. For measurements and assessments of economic freedom, including trade freedom, see Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2014).
 13. U.N. Conference on Trade and Development, “Classification of Non-Tariff Measures,” February 2012, p. 1, http://unctad.org/en/PublicationsLibrary/ditctab20122_en.pdf (accessed June 30, 2014).
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as they depend on the assumptions underlying the modeled area.¹⁴

However, focusing exclusively on the gains from freer trade in goods ignores the broader point that the U.K. and U.S. economies are closely tied in other areas and share many of the same interests. The U.S. and the U.K. invest heavily in each other: In 2011 alone, British firms invested £15.5 billion in the U.S., more than in any other foreign nation, while U.S. firms invested £15 billion in the U.K. Total U.S. foreign direct investment in the U.K. is valued at £204 billion, while U.K. investment in the U.S. is worth £210 billion.¹⁵ The U.K. relies heavily on the export of financial services, in which it had a surplus in 2013 of £61 billion.¹⁶ As major investors abroad, as leading recipients of foreign investment, and as the homes (London and New York) of the world's most important financial centers, both the U.S. and the U.K. have much to gain from promoting investment freedom for the same reason that, as centers of technological and intellectual innovation, they support effective protection of intellectual property.

It is important not to fall into the trap of arguing that imports are a sign of failure. Imports reflect the free purchasing decisions of individuals and firms, and the goal of any FTA is as much to make imports cheaper to buy as it is to remove obstacles to exports. But it is also important to recognize that the U.K. regularly runs a visible trade deficit both with the world outside the EU and, in particular, with the EU and that, more significantly, some of the major contributors to this deficit are items of which the U.S. is either a major exporter or in a position to export but

is limited in or prevented from doing so because of restrictions imposed by the EU or the U.S.

In other words, the problem is not that the U.K. is an importer. The problem is that, thanks to government restrictions on both sides of the Atlantic, it is an inefficient importer.

Imports reflect the free purchasing decisions of individuals and firms, and the goal of any FTA is as much to make imports cheaper to buy as it is to remove obstacles to exports.

In 2013, for instance the U.K. ran a deficit of approximately £21 billion on food, feed, and drink, with imports coming predominantly from Europe.¹⁷ Another major U.K. import—in many months, the most significant import—is mineral fuels (oil and gas), which in May 2014, for example, were valued at £3.2 billion from outside the EU.¹⁸ These items are significant because in both cases, trade is shaped significantly as much by government restrictions as by free individual decisions.

In the case of agriculture, the EU's tariffs on imports average approximately 15 percent, a level of protection that is far higher than EU tariffs on manufactured goods (around 3 percent) and that bears particularly heavily on the U.K. as a net food importer.¹⁹ The British consumer at the supermarket is penalized twice for being in the EU—once through the EU's tariffs and again because of the

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14. "David Cameron: A British-American Tax and Trade Agenda," *The Wall Street Journal*, May 12, 2013, <http://online.wsj.com/article/SB10001424127887324216004578478652537662348.html> (accessed August 7, 2013).
 15. Grahame Allen and Aliyah Dar, "Foreign Direct Investment," U.K. Parliament House of Commons Library, March 14, 2013, Charts 5 and 3, <http://www.parliament.uk/business/publications/research/briefing-papers/SN01828/foreign-direct-investment-fdi> (accessed July 30, 2014).
 16. "UK Trade Surplus in Finance to Reach Record £61bn," *The City UK*, January 16, 2014, <http://www.thecityuk.com/media/latest-news-from-thecityuk/uk-trade-surplus-in-finance-to-reach-record-61bn/> (accessed July 30, 2014).
 17. U.K. National Statistics, *Agriculture in the United Kingdom 2013*, May 29, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/315103/aug-2013-29may14.pdf (accessed July 30, 2014).
 18. HM Revenue and Customs, "UK Overseas Trade Statistics Non-EU May 2014," July 10, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/328203/OTS_May14.pdf (accessed July 30, 2014).
 19. "EU Agricultural Protection Measures," Trinity College Dublin, last updated August 25, 2010, <https://www.tcd.ie/iis/policycoherence/eu-agricultural-policy/protection-measures.php> (accessed July 30, 2014). See also Alan Matthews, "WTO EU Trade Policy Review 2013," CAP Reform.eu, July 25, 2013, <http://capreform.eu/wto-eu-trade-policy-review-2013/> (accessed September 2, 2014).

U.K.'s net contribution to the EU's Common Agricultural Policy, which between 2007 and 2013 cost the UK approximately £8.7 billion.²⁰

On the other hand, U.S. law requires companies to apply for permits to export liquefied natural gas to countries (including the U.K.) that do not have trade agreements with the U.S. Over the past four years, the U.S. Department of Energy has approved only seven of 31 applications.²¹

In other words, despite the generally low level of tariff protection between the U.S. and the U.K., there are significant governmental constraints on trade in several sectors, in some of which the U.K. runs a trade deficit and in which the U.S. and the U.K. have a natural complementarity. In these sectors, an FTA would allow the U.K. to import goods more efficiently, which in turn would benefit U.S. exporters. Moreover, these areas tend to be ones that are unlikely to be fully resolved in any trade agreement between the U.S. and the EU, a failing for which the U.S. and the EU share responsibility.²²

The value of a U.S.–U.K. free trade area cannot be addressed merely by looking at the economic and financial relationship of the two nations today. The cost to the U.K. of the Common Agricultural Policy, for instance, is set to rise in the coming years. If the U.K. were not an EU member, able to trade food freely with the entire world, it would escape that burden.²³ Far more significantly, the EU is seeking to impose a financial transactions tax (FTT) that may impinge on the City of London. The scope of this tax

is unclear, but there is widespread agreement in the U.K. that the EU's regulation is damaging to Britain.

As London Mayor Boris Johnson put it in response to another defeat in a long-running British court battle against EU regulation at the European Court of Justice in April 2014, "We cannot allow jobs, growth and livelihoods to be jeopardized by those in the EU who mistakenly view financial services as an easy target."²⁴ Many commentators interpret the EU's enthusiasm for the FTT as, at best, a case of ill-informed anti-market sentiment and, at worst, a deliberate EU effort to damage the British capital city and punish the U.K. for its wise decision not to adopt the euro.²⁵

In short, a U.S.–U.K. free trade area, if it went beyond eliminating tariffs to addressing areas in which both nations share interests (promoting investment and trade in services and defending intellectual property) and have a natural complementarity (in particular, agriculture and energy), would have real value. It would not revolutionize the economy of either nation, but both parties are well positioned to benefit from reducing existing restrictions on trade and from concluding an agreement that would strengthen their already formidable positions as financial and technological innovators.

But the most important facet of a U.S.–U.K. free trade area is not what it would do now, but what it would do in the future. Simply put, it would significantly insulate the U.K. from the damaging effects of further EU interference by aligning it clearly

20. Christopher Howarth, Anna Kullmann, and Pawel Swidlicki, "More for Less: Making the EU's Farm Policy Work for Growth and the Environment," Open Europe, February 2012, http://www.openeurope.org.uk/Content/Documents/Pdfs/CAP_2012.pdf (accessed July 30, 2014).

21. U.S. Department of Energy, "Applications Received by DOE/FE to Export Domestically Produced LNG from the Lower-48 states (as of March 24, 2014)," <http://energy.gov/sites/prod/files/2014/04/f15/Summary%20of%20LNG%20Export%20Applications.pdf> (accessed July 1, 2014).

22. On financial services and regulation, see "Financial Services Off the Table at Next Round of TTIP Talks," EurActiv.com, June 16, 2014, <http://www.euractiv.com/sections/euro-finance/financial-services-table-next-round-ttip-talks-302808> (accessed July 30, 2014); on agriculture, see Gerry Alons, "The TAFTA/TTIP and Agriculture: Making or Breaking the Tackling of Global Food and Environmental Challenges?" Future Challenges, February 5, 2014, <http://futurechallenges.org/local/the-tafta-ttip-and-agriculture-making-or-breaking-the-tackling-of-global-food-and-environmental-challenges/> (accessed July 30, 2014); and on energy exports, see "Leaked Paper: EU Wants 'Guaranteed' Access to US Oil and Gas," EUObserver.com, July 9, 2014, <http://euobserver.com/news/124910> (accessed July 30, 2014).

23. Howarth, Kullmann, Swidlicki, "More for Less."

24. Bruno Waterfield, "Boris Warns City Under Threat After European Court Dismisses UK 'Tobin Tax' Challenge," *The Telegraph*, April 30, 2014, <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10797997/Boris-warns-City-under-threat-after-European-Court-dismisses-UK-Tobin-tax-challenge.html> (accessed July 30, 2014).

25. Adam Baldwin and Sam Bowman, "Hanging London Out to Dry: The Impact of an EU Financial Transaction Tax," Adam Smith Institute *Briefing Paper*, November 4, 2011, <http://www.adamsmith.org/sites/default/files/resources/FTT.pdf> (accessed July 30, 2014).

with the U.S. as a nation outside the EU's regulatory reach. This would not just benefit the U.K. It would also help the U.S. by improving the ability of the most important foreign investor in the United States to continue to serve as both a source of investment and a recipient of it.²⁶

The Broader Benefits of a U.S.–U.K. Free Trade Area

The beneficial effects of a U.S.–U.K. free trade area would not be limited to its direct economic and financial impact. In the long run, other benefits would likely be even more significant.

First, both the U.S. and the U.K. historically are based on limited government. The U.K. was a great free trading nation in the 19th century, and after 1945, the U.S. took over leadership of this cause. Both nations today are far more inclined than many others—especially in the EU—to support liberalized international trade, partly because of their tradition of limited government and partly because it is clearly in their own economic interests to do so. A U.S.–U.K. free trade area would be a powerful symbol of a shared and renewed Anglo–American commitment to economic freedom in the international realm and, as such, a reassertion of their successful policy after 1945 of promoting growth, both in the West and around the world, by advancing freedom.

Freedom, of course, is a much broader concept than economic freedom, as vital as that form of freedom is to prosperity, growth, and liberty. By the same token, the Anglo–American relationship is much broader than the economic and financial ties between the two nations, as vital as they are. A free trade agreement cannot take the place of the strategic connection embodied partly in NATO and partly in the close bilateral cooperation between the allies. In fact, it would be dangerous to place too much weight on economic ties alone: It is an illusion to believe that trade, essentially a private activity, can be a substitute for political leadership and strategic cooperation. By the same token, the political leadership necessary to negotiate and, in the U.S., win congressional approval of a U.S.–U.K. free trade area would signal a clear recommitment on the part of both nations to their enduring relationship.

Finally, the negotiation of a U.S.–U.K. free trade area would be an opportunity for the U.S. and Britain to establish their preferred approach for advancing free trade, an approach that should emphasize reducing regulations that impede trade in a way that is compatible with democratic sovereignty. With tariffs in many sectors now low, future free trade agreements will focus increasingly on non-tariff barriers.

In the ongoing negotiations between the U.S. and the EU over the TTIP, both sides are seeking to apply a variety of mechanisms to reduce the burdens on trade that are imposed by differing U.S. and EU regulations over the short run while relying on harmonization—led by a U.S.–EU transnational institution—over the long run. This approach might make trade easier for today's businesses, but over time it will tend to increase the regulatory burden on businesses, to reduce regulatory competition, and to damage economic freedom. Moreover, a transnational institution would be bad for U.S. sovereignty, as it would be a gatekeeper for the U.S.'s domestic processes.

It would be dangerous to place too much weight on economic ties alone: It is an illusion to believe that trade, essentially a private activity, can be a substitute for political leadership and strategic cooperation.

A U.S.–U.K. free trade area would be an opportunity to negotiate a different and better kind of agreement between two advanced industrialized nations with major financial centers. Instead of building up a transnational institution to harmonize regulations—an approach that is fundamentally akin to that adopted by the EU—an Anglo–American agreement would adopt an approach of mutual recognition under which each side would agree to accept the standards of the other. Instead of seeking a comprehensive, big-bang solution—an all-too-common approach for contemporary trade negotiations that promises major results but is slow to pay off—a U.S.–U.K. agreement would focus on sectors in which agreement is likely to be easy (including the promo-

26. James K. Jackson, "Foreign Direct Investment in the United States: An Economic Analysis," Congressional Research Service, December 11, 2013, <http://fas.org/sgp/crs/misc/RS21857.pdf> (accessed July 30, 2014).

tion of investment) and on the major gains that are to be had (for example, in the agricultural sector). Finally, instead of burdening the agreement with a broader political framework arrangement, as the EU is wont to do, an Anglo–American trade agreement would stick to trade.

The U.S. should negotiate FTAs that genuinely advance economic freedom with any and every reliable negotiating partner.

The goal of these negotiations would be to conclude an agreement that could become a basis for additional agreements as new areas for cooperation emerged. An Anglo–American FTA based on these principles would also establish what both nations would seek to achieve in trade negotiations with other nations. That does not mean that every trade agreement either nation negotiated would need to be a carbon copy of the Anglo–American one. It means that, having committed themselves to a high-quality agreement that promotes economic freedom and respects national sovereignty in the context of the U.S.–U.K. relationship, they would base future negotiations on the same principles.

Conclusion

The U.K. and the U.S. should seek to negotiate a free trade area. While this goal cannot be realized until the U.K. leaves the European Union, interested parties in the U.S. can advance this goal by stating clearly that they would welcome the negotiation of such an area. A U.S.–U.K. free trade area should serve as a symbol of and a real contribution toward a shared Anglo–American rejection of supranational control and the shared belief that government must be based on sovereignty and freedom. In preparing for these negotiations, the U.S. should commit to abandoning protectionist policies, such as its stance on the licensing of energy exports, which are not compatible with the promotion of economic freedom.

The U.S. should also abandon the attempt to pressure the U.K. to remain in the EU. The U.S. has a fundamental interest in supporting the right of democratic nations to choose their own foreign and domestic policies. It should want nothing less or more for Britain (or any other democratic nation) than it wants for itself. The EU prevents Britain from exercising that freedom. Britain’s future should be decided by the British people, unaffected by pressure from the United States.

More broadly, the U.S. should abandon its policy of supporting the EU at the expense of the sovereignty of its member nations. Close cooperation between the European democracies was and is in the interest of the United States, but the EU is not about cooperation; it is about centralization and the subordination of national democracy to supranational control. If some of the peoples in Europe genuinely wish to go down that road, they are free to do so, but the U.S. should emphasize bilateral relations with European nations in and out of the EU, not seek to drive those nations into further dependence on the EU for the sake of U.S. objectives that the EU does not advance.

Finally, the U.S. should negotiate FTAs that genuinely advance economic freedom with any and every reliable negotiating partner. It should not allow its freedom of negotiation to be restricted by the claims of other nations or groups of nations, and it should certainly not impose any restrictions on itself. In particular, the U.S. should not allow its trade diplomacy to be used as a cat’s paw by the EU to keep the U.K. in the union. Instead, it should state clearly and plainly that its trade relations will be based on sound principles of freedom and that it will always welcome any nation that wants to work with it to advance those principles.

For its part, the U.K. should abandon unwarranted pessimism about its future outside the EU. Many commentators have advanced serious proposals for how the U.K. should leave the EU and how it should handle its trading relations with the EU and other nations after its departure.²⁷ But the U.K. should begin with a few more basic points: It has one of the world’s largest economies, it has a continuing history of worldwide trading relations, and many much

27. Richard A E North, *Flexcit: The Definitive EU Exit Plan for Britain*, EUReferendum.com, July 23, 2014, <http://www.eureferendum.com/documents/BrexitPamphlet001.pdf> (accessed July 30, 2014), and “Iain Mansfield Named Winner of £100,000 IEA Brexit Prize,” Institute of Economic Affairs, 2014, <http://www.iea.org.uk/brexit> (accessed July 30, 2014).

smaller economies in Europe have prospered and been able to negotiate trade agreements successfully outside the EU. There is no reason to believe that the U.K. will not be able to do the same thing. While the path of departure is obviously important, so is having confidence that the journey will be successful.

The same cannot be said of efforts to reform the EU, which will not work. British political leaders have argued for decades—in some cases seriously, in other cases only rhetorically—that the EU can be reformed in ways that will create an entity that serves British interests. This is a delusion. Britain has been trying to achieve that aim since the mid-1950s, and since that time the EU has only grown more centralized and less respectful of national sovereignty. Even successful British initiatives, like Margaret Thatcher’s campaign for the Single European Act in the mid-1980s, have been distorted into mechanisms for advancing supranational bureaucratic centralization.

The U.K. cannot fix the EU. If it had the power to do so, the EU would not exist today in anything remotely resembling its current form.

The U.K. should therefore begin to prepare seriously for life outside the EU. If the U.K. does not do this, the 2017 referendum, if it is held, will not offer a serious choice. Preparing requires, at a minimum, two steps.

First, the U.K. needs to reinvest in training its diplomats to work outside the EU framework. In many areas of national policy, this will not require much, because the EU does not have competence (responsibility) for many portions of foreign policy. But in the realm of trade diplomacy, where the U.K. has had no independent experience since 1973, a major effort will have to be made. This will require clear political leadership because, left to its own devices, the Foreign and Commonwealth Office will certainly opt for and even campaign for the preservation of the EU status quo.

Second, the U.K. needs to decide which steps it would take after a vote to leave the EU. The negotiation of alternative trade arrangements will then be one of the most pressing concerns facing the U.K.,

and the U.K. should state clearly, well in advance, with which nations it will seek to negotiate and on what principles it will base its negotiating position. Like the U.S., it should emphasize the preservation of its national sovereignty and the promotion of economic freedom, both based on their own merits and as a contribution to freedom more broadly.

It is remarkable that the U.S. and the U.K. are not already trading freely with each other. The U.S. enjoys free trade with many nations that are not nearly as closely connected to it, either economically or strategically; the U.K., as one of the world’s great trading nations, has a long history of seeking to promote freer trade. The primary reason why a U.S.–U.K. free trade area does not already exist is the constraints that the EU imposes on the U.K. Those constraints are all the more binding because of the U.S.’s failure to recognize that pressuring the democratic nations of Europe ever more deeply into the EU does not serve U.S. interests.

For the U.K., securing a free trade area with the U.S. must be one important part of a much broader effort to negotiate satisfactory trading arrangements—arrangements that do not sacrifice British interests to those of the EU—around the world. That goal, in turn, can be achieved only if the U.K. recognizes that it can be prosperous *and* freer outside the EU. For the U.S., a free trade area with the U.K. is a worthy economic goal, but it is especially important because it will represent a rejection of the EU’s efforts to subordinate democratic and sovereign nations to supranational control.

For both nations, the obstacles to a free trade agreement are primarily political. Those obstacles can and must be overcome in both nations by finding the political will to support policies that will enhance, not detract from, their sovereignty and freedom as great Atlantic democracies.

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