Institute for Public Policy Research

TRADING UP

PROPOSALS FOR A PROGRESSIVE US-UK TRADE PARTNERSHIP

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CONTENTS

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SUMMARY

This is an uncertain period for US-UK trade relations. Since leaving the EU, negotiating a free trade agreement with the US has been a major priority for the UK government. But talks have stalled in recent years, as the Biden administration has prioritised domestic economic reforms and US politicians have grown concerned about the UK's dispute with the EU over Northern Ireland.

Over the past few months, there have been some positive signals for the bilateral trade relationship: the two sides have hosted each other for dialogues on the future of Atlantic trade and agreed a deal to partially lift US tariffs on steel and aluminium. But with the US currently not in the business of negotiating free trade agreements, it is unclear where current discussions may lead.

The opportunity for strengthening trade relations lies in a new progressive US-UK trade partnership. The focus of the US trade representative (USTR) under the Biden administration – building on the work of previous administrations – is on developing a worker-centred trade policy which supports environmental sustainability and climate ambitions. For its part, the UK is primarily interested in building transatlantic ties and trade links – with the ultimate ambition of a trade deal mutually unlocking market access. The most fruitful way forward would be to combine these two agendas into a new partnership aimed at incorporating labour, environmental and climate ambitions into trade policy.

The partnership should start with a new Framework for Progressive Trade, outlining shared values and commitments. This would draw on the recent launch of discussions on the Indo-Pacific Economic Framework for Prosperity (IPEF). The IPEF aims to deepen US economic engagement in the Indo-Pacific region through a series of commitments, while stopping short of offering market access to partners. The Framework for Progressive Trade should include shared principles on supporting equitable growth (both domestically and globally), addressing the climate and nature crisis, and supporting democracy and human rights. It should also include specific commitments on the following.

- **Forced labour**: the UK should follow the US's lead and commit to legislating for an import ban targeting goods made using forced labour.
- **World Trade Organisation (WTO) reform**: the US and the UK should agree common aims for WTO reform to safeguard and improve labour and environmental standards, including a moratorium or temporary 'peace clause' to allow for members to enact certain trade-related climate mitigation measures without facing a WTO challenge.
- **Illegal deforestation**: the US and the UK should make a commitment to prohibit the importing of commodities from illegally deforested land.
- **Carbon leakage**: the US and the UK should agree a joint approach to tackling carbon leakage, including a recognition that a carbon border adjustment mechanism (CBAM) is likely to be needed to ensure that importers in carbon-intensive industries face equivalent carbon costs to domestic producers. They should agree that any CBAM prioritises climate aims, treats domestic and overseas products equally, and accounts for the impacts on developing countries.

Alongside this framework, the UK, US, EU, and other trade partners should agree a sectoral deal on sustainable steel and aluminium. A focus on steel is a priority for

climate action given the iron and steel industry directly contributes to around 7 per cent of global energy system CO2 emissions.

The UK should therefore join and contribute to the ongoing discussions between the US and the EU over a global arrangement for sustainable steel and aluminium. The global arrangement should be designed from the outset with the aim of spurring climate action rather than the protection of domestic industries. It should be open to all countries with ambitious decarbonisation policies for their domestic steel and aluminium production. We propose the following steps to negotiating this deal.

- The members of the global arrangement should develop shared methods for measuring embedded greenhouse gas emissions in steel and aluminium products.
- The discussions should also agree a common approach for comparing the effects of carbon pricing measures with other non-pricing climate policies.
- Members should agree to introduce carbon border adjustments covering steel and aluminium based on their domestic carbon price. Where members do not have a carbon price, an equivalent should be calculated based on non-pricing policies.
- Where members implement a domestic carbon price for the steel and aluminium sectors at a similar level and above an agreed minimum – either through an explicit carbon pricing system or through equivalent measures – they should agree to exempt each other from their carbon border adjustments.
- Members must agree to combine carbon border adjustments with support for the green transition in steel and aluminium production in developing countries.

Finally, in the long-term the UK and the US should negotiate a free trade agreement with ambitious commitments on labour, climate, and nature. While a deal is unlikely in the short term, an eventual agreement could break new ground on progressive trade.

- **Trade in environmental goods and services**: when negotiating their free trade agreement (FTA), the UK and the US should prioritise the immediate removal of all tariffs on an agreed comprehensive list of environmental goods. They should also work to liberalise trade in environmental services, including in green finance and other business services.
- **Enforceable non-regression clauses**: the FTA should include robust and enforceable non-regression clauses committing both parties to not weaken labour and environmental protections. Trade sanctions should be permitted in the event of a breach. Following the US-Mexico-Canada Agreement (USMCA) model, the burden of proof should be shifted so that any act of non-regression is assumed to affect trade unless proven otherwise.
- **Protection of food standards**: the deal should ensure full protection of the UK's food hygiene rules. While this is likely to be a highly contentious issue, there may be a way forward to satisfy all sides: the UK could negotiate a temporary veterinary agreement on trade in agri-food products with the EU, easing concerns about the Northern Ireland dispute while helping to justify the UK's position on food hygiene to the US.
- **Net zero commitments**: the US and UK governments' net zero targets should be embedded into the agreement. Where one party implements new measures which materially increase net emissions in a manner affecting trade or investment, the other party should have the option to impose trade sanctions in response.

1. INTRODUCTION

This is a tumultuous period for global trade. The Covid-19 pandemic has played havoc with supply chains, resulting in unpredictable shortages and rising prices. Trade tensions between the US and China remain high in the aftermath of the Trump presidency and the Biden administration's continuing concerns over Chinese economic practices. And now the Russian invasion of Ukraine has led to a series of unprecedented sanctions aimed at cutting Russia off from the global economy. At the same time, growing concerns over the ensuing climate crisis have led policymakers to scrutinise and re-evaluate the relationship between trade and the environment.

Amid this complex and changing picture, the UK is actively looking to build new trade partnerships after its exit from the EU. Critical to the government's 'global Britain' agenda is the accumulation of new trade agreements to signal the success of Brexit and reorient the UK towards non-EU countries. The UK has so far signed several roll-over deals – intended to largely replicate the trading arrangements it had as an EU member – as well as new free trade agreements (FTAs) with Australia and New Zealand. Negotiations are beginning over new FTAs with India and the Gulf Cooperation Council (GCC) and enhanced trade deals with Canada, Israel and Mexico. But perhaps the most prized partner for a trade agreement would be the United States. Its size and significance would mean that a strengthened transatlantic partnership could be a political gamechanger for post-Brexit UK trade policy.

For its part, the US has signalled its focus on rebuilding the domestic economy in response to the pandemic and a reluctance towards pursuing traditional free trade agreements. The Biden administration has outlined a 'worker-centred' approach to trade policy, including a particular emphasis on promoting high labour and environmental standards. While the US appears to not currently be in the business of negotiating new trade agreements, there is an interest in forging trade partnerships in areas of strategic interest – for instance, the proposed plans with the EU for a global arrangement on sustainable steel and aluminium, touted as the world's first carbon-based sectoral arrangement.

In our view, the US and the UK should take the opportunity from their current talks to develop a new progressive partnership on trade policy, combining the UK's focus on deepening trade ties with the US's interest in worker-centred and sustainable trade. While the prospects of a US-UK free trade agreement are low in the short run, there is scope for the US and the UK to form a new kind of trade partnership which makes concrete progress in tying trade policy to a broader social and environmental policy agenda. This partnership could signal the start of a fresh progressive consensus on trade and globalisation, which helps to establish and embed new norms on the pursuit of ethical, sustainable trade.

There are already signs that the US and the UK are heading in this direction. Earlier in 2022, UK trade secretary Anne-Marie Trevelyan and US trade representative Katherine Tai met for two US-UK dialogues on the future of Atlantic trade held in Baltimore and Aberdeen. There are now plans to develop a roadmap covering several policy areas, including digital trade, supply chains, and food security, as well as worker-centred trade and environmental and climate action. The landing zone for a trade partnership appears to be focussed on how to combine the traditional approach of trade policy – aimed at expanding trade and investment – with a broader agenda focussed on workers' rights, sustainability, and climate action.

In this report, we set out proposals for a new US-UK trade partnership directed at supporting shared objectives on labour, climate, and nature. It builds on our earlier paper *Towards a progressive US-UK trade partnership*, which outlined a proposed framework based on the principles of supporting equitable growth, addressing the climate and nature crisis, and promoting democracy and human rights (Morris and Nanda 2021). The report first details the trade policy landscape in the US and UK and surveys the current policy discussion over green and worker-centred trade. The concluding section turns to a set of proposals for US-UK trade relations, exploring the different opportunities for the UK and US to make progress on an inclusive, sustainable and ambitious climate trade agenda.

2.
US AND UK TRADE POLICY IN THE 2020S

THE GLOBAL POLICY CONTEXT

For much of the past few decades, there was a broad policy consensus globally on the benefits of trade liberalisation. The common view among economists and policymakers was that free trade stimulated economic growth, contributed to rising living standards and helped to reduce the risk of international conflict. Tariffs on goods were progressively reduced, while the number of free trade deals grew considerably. The World Trade Organisation (WTO) – the body regulating international trade which was founded in 1995 – expanded to 164 members, covering 98 per cent of world trade (WTO nd).

But in recent years there has been a growing shift in the policy consensus on trade. The election of president Donald Trump in the US led to rising trade tensions, most notably between the US and China. Concerns in the US centred on the distortive impacts of Chinese non-market practices – including extensive industrial subsidies, state control over business activity, and forced technology transfer (USTR 2019). In 2018, the Trump administration imposed new 'section 301' tariffs on China, resulting in a tit-for-tat trade war between the two economies (ibid 2018).[1] In the same year, the US introduced 'section 232' tariffs on most international steel and aluminium imports for national security reasons, in response to fears over global excess capacity (again largely stemming from China) (EOP 2018).[2]

At the same time, tensions have surfaced at the WTO. In recent years, the US has blocked the appointment and reappointment of members to the WTO Appellate Body, the WTO body for handling appeals and the final arbiter of trade disputes between members. These blockages – started under President Obama but ramped up under President Trump – have forced all of the Appellate Body's seats to become vacant. This has left the global trading system without any impartial mechanism for resolving disagreements.

Amid this rise in trade tensions, the Covid-19 pandemic and the ensuing public health restrictions have shaken the world economy. Lockdowns and travel restrictions have disrupted global trade flows. At the same time, the reopening of economies has led to a surge in consumer demand, contributing to supply chain bottlenecks and to surging inflation. In response, many countries have begun to place more emphasis on 'reshoring' manufacturing supply chains as a means of supporting greater economic resilience.

Finally, Russia's invasion of Ukraine has also been a gamechanger for global trade policy. Western countries have responded to Russia's unprovoked attack with a suite of unprecedented economic sanctions. These include a series of trade measures: the US has banned all Russian imports of oil, gas, and coal; the UK has committed to ending Russian oil imports by the end of 2022; and the EU has stated that it will ban the import of most Russian oil by the same date (Bown 2022). G7

1 Section 301 of the Trade Act of 1974 allows the USTR to investigate and apply sanctions in response to unfair trading practices by other countries.

2 Section 232 of the Trade Expansion Act of 1962 gives powers to the US president to impose trade restrictions on imports found by the Secretary of Commerce to threaten to impair national security.

leaders have also agreed to withdraw 'most favoured nation' treatment for Russia, paving the way for higher tariffs on Russian imports (White House 2022a).[3]

In parallel, the UK and the EU have liberalised trade with Ukraine, eliminating tariffs on all goods, while the US has suspended tariffs on Ukrainian steel (DIT 2022a; EC 2022; White House 2022b). In light of the war in Ukraine, policymakers in the UK, EU, and US have therefore increasingly used trade measures as a tool to challenge Russian aggression and promote democratic values.

The long-term implications of recent events for trade are hard to predict. Before the pandemic, global trade flows relative to GDP had stalled in the aftermath of the financial crisis – a phenomenon described by some economists as 'slowbalisation' (Irwin 2020). The onset of Covid-19 led to a dramatic fall in trade flows, followed by a sharp rebound (OECD 2022). The latest forecasts from the WTO suggest that Russia's invasion in Ukraine is expected to depress trade growth (WTO 2022a). At the same time, analysts have long predicted a growing 'regionalisation' of trade – meaning that trade flows will be more concentrated within regional blocs and that supply chains will be shortened (Legge and Lukaszuk 2021).

Whatever the future of global trade patterns, one thing is clear: in recent years, there has been a fundamental shift in the debate on trade. The policy consensus in the US and Europe on free trade has come under strain. Leading economists such as Paul Krugman have changed their views as new evidence has emerged of the impact of large trade flows – in particular, the 'China shock' after China joined the WTO – on economic inequalities in the US and Western European countries (Autor et al 2013; Dorn and Levell 2021; Krugman 2019). The model of laissez-faire free trade – where liberalisation and economic integration are the primary drivers of policy – has come under renewed pressure (Rodrik 2022; Sutton and Green 2021).

Instead, trade policy is increasingly not seen as an end in itself but as intertwined with other objectives, whether they be on foreign policy, human rights, or the climate crisis. This means that governments are more willing to impose measures which would traditionally have been seen as protectionist if they are understood as furthering wider strategic aims – from strengthening economic resilience to protecting core democratic values. More than ever, trade policy is not simply about trade.

UK TRADE POLICY POST-BREXIT

The UK is uniquely situated in the global trading system. Having left the EU at the end of January 2020 and exited the single market and customs union at the beginning of 2021, it now has a fully independent trade policy and tariff regime. For some, the UK's withdrawal from the EU formed part of a wider global trend towards economic protectionism. For the UK government, however, Brexit is meant to signal a renewed embrace of free trade. Under the 'global Britain' banner, the UK has sought to use its newfound powers to lower its tariffs and negotiate new free trade agreements (FTAs) around the world. In a global context where there is little momentum in favour of striking new trade deals, the UK's Department for International Trade (DIT) has taken a notably ambitious approach to trade negotiations.

So far, aside from its agreement with the EU and the 'roll-over' deals negotiated as part of the Brexit process to largely replicate existing arrangements between the EU and third countries, the UK has signed FTAs with two partners – Australia and New Zealand – as well as a digital economy agreement with Singapore. Negotiations have begun with India and the Gulf Cooperation Council (GCC) on new FTAs and with Canada, Israel and Mexico on improvements to existing deals. The UK has also begun accession proceedings for entry into the Comprehensive and Progressive Agreement

3 The 'most favoured nation' principle requires each WTO member that offers a benefit to a trade partner to offer the same benefit to all WTO members.

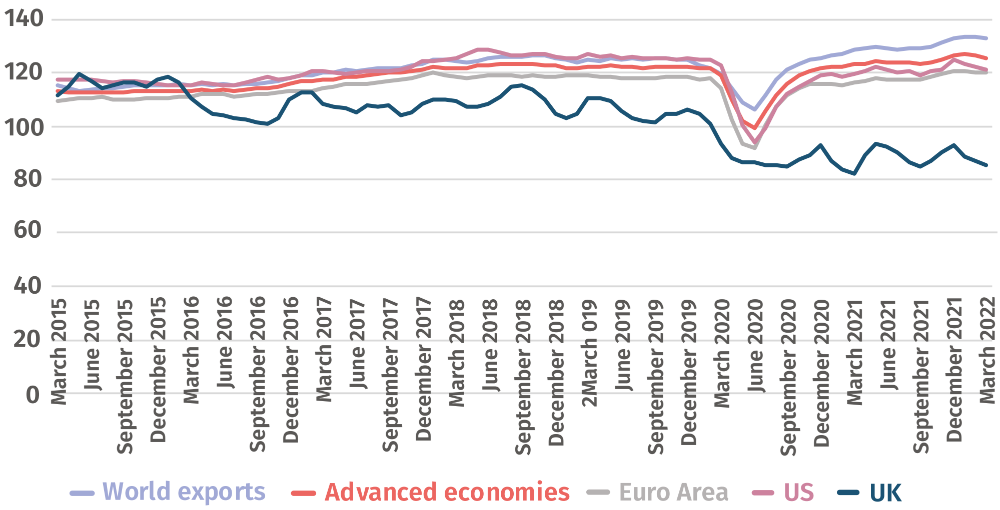
for Trans-Pacific Partnership (CPTPP) – a trade agreement currently involving 11 countries in the Asia-Pacific region. Preparations are underway for negotiations with Switzerland. Finally, the UK has started trade negotiations with the US, as discussed further below. Given the progress of negotiations on so many fronts, the government sees its trade agenda as a beacon of post-Brexit 'global Britain' (House of Commons Library 2022a).

Critics, however, have argued that – apart from a primary interest in racking up new agreements – there is little clarity in the strategic aims of the government's trade policy. The UK's offensive asks in its multiple trade negotiations are not obvious – a problem exacerbated by a lack of transparency over the content of the discussions. Farmers and environmental campaigners have expressed concerns over the recently signed deals with Australia and New Zealand, maintaining that, by removing tariff barriers for sensitive agricultural products, the deals expose the UK to greater volumes of goods produced to lower environmental and animal welfare standards and place British farming at a competitive disadvantage (House of Commons Library 2022b; NFU 2022; Greener UK 2022).

Moreover, the UK's overall trade position is weak (Lowe 2022). The total trade deficit in goods and services has widened considerably over the past year (ONS 2022a). UK exports have not benefited from a boom since the low point of the pandemic, in contrast to other comparable countries (see figure 2.1). In part, this appears to be driven by the lack of a surge in exports to the US (Deloitte 2022). Recent estimates also suggest that Brexit has had a major and sustained negative impact on the import of goods from the EU relative to the import of goods from the rest of the world (a relative fall of approximately 25 per cent) (Freeman et al 2022). And the economic effects of the Australia and New Zealand deals are considered to be fairly marginal: an estimated 0.08 and 0.03 per cent increase in GDP respectively by 2035, according to the government's impact assessments (DIT 2021a; DIT 2022b). In spite of the intense activity within the government and the rhetoric of 'global Britain', the UK's recent trade performance has been lacklustre. This places greater pressure on the UK to negotiate a deal with the US, one of its largest trading partners.

FIGURE 2.1: UK EXPORTS HAVE NOT BENEFITED FROM THE SAME BOOM SINCE THE LOW POINT OF THE PANDEMIC COMPARED TO OTHER ADVANCED ECONOMIES

Export volumes, seasonally adjusted (2015–2022)



Source: CPB 2022

Note: Three-month rolling average, fixed base 2010=100.

US TRADE POLICY UNDER PRESIDENT BIDEN

While the UK has been eagerly negotiating new FTAs around the world, US trade policy has headed in a different direction. Coming to power amid the Covid-19 pandemic and in the wake of the Trump administration's disruptive agenda, president Biden has focussed his first period in office on trying to revitalise the domestic economy and restore US relations with key allies. Amid ongoing political discontent over the impacts of globalisation, China's role in the world economy, and the decline of US manufacturing, the Biden administration has developed a vision of a 'worker-centred' trade policy. This agenda has focussed on supporting American workers, driving equitable growth, promoting racial justice, and advancing environmental and climate ambitions (USTR 2021a).

The administration has initially signalled a prioritisation of the domestic economy over international trade policy. Gridlock in Congress means that the scope of trade policy is largely limited to where there is clear bipartisan support or where measures can be taken through executive actions. Moreover, the expiry of the Trade Promotion Authority (TPA) – a key legislative vehicle for negotiating and passing trade agreements – on 1 July 2021 has meant that new FTAs are unlikely for the time being.

Where the US has sought to build trade relations abroad, its attention has been on the Indo-Pacific region. Trade tensions with China are still high and the US continues to apply section 301 tariffs on Chinese goods, though the President is under pressure to ease them to help curb inflation. At the end of 2021, amid concerns over human rights abuses against China's Uyghur community, the US Congress passed legislation banning imports mined, produced or manufactured in the Xinjiang region unless US Customs and Border Protection concludes they have not been made with forced labour.[4]

At the same time, the Biden administration has recently launched discussions on an Indo-Pacific Economic Framework for Prosperity (IPEF) with thirteen countries, including Australia, India, Indonesia, Japan, Malaysia, South Korea, Thailand, the Philippines and Vietnam. While not a traditional FTA and offering no access to the US market, the IPEF aims to include shared commitments covering four pillars: connected economy (trade, standards and the digital economy); resilient economy (supply chains); clean economy (clean energy, decarbonisation, and infrastructure); and fair economy (tax and anti-corruption) (White House 2022c). The IPEF could be a potential model for future international economic initiatives under president Biden.

Normalisation of trade relations with the EU has also been a priority for the Biden administration. The US and the EU have set up a new Technology and Trade Council (TTC) focussed on a range of issues, including expanding transatlantic trade and investment, working jointly on technology and supply chains, cooperating on standards and regulations, and promoting innovation (European Council 2021). In October 2021, both parties came to a deal on the section 232 tariffs on steel and aluminium introduced during the Trump presidency: the US agreed to remove tariffs up to the level of historic trade volumes, while the EU agreed to suspend its counter measures. They also agreed to enter discussions on a 'global arrangement on sustainable steel and aluminium', aimed at addressing global overcapacity and high carbon emissions (USTR 2021b). This has led to growing interest in a transatlantic 'green steel deal' based on facilitating trade in steel and aluminium with low carbon content, while making it harder for high carbon 'dirty' steel and aluminium products to enter US and EU markets.

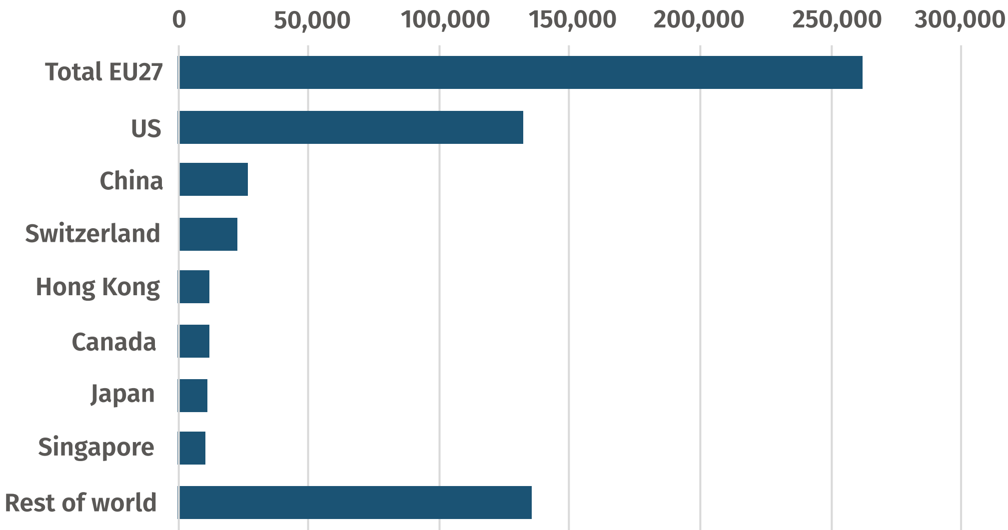
4 See: H.R.1155 – Uyghur Forced Labor Prevention Act. https://www.congress.gov/bill/117th-congress/house-bill/1155/text

THE US-UK TRADE RELATIONSHIP

A trade deal with the US has long been the grand prize for post-Brexit Britain. After the EU, the US is the UK's largest trading partner: exports to the US in 2021 totalled £132.2 billion, more than a fifth of its global exports and higher than any other individual country (see figure 2.2). At the same time, imports from the US totalled £83 billion, again the highest of any country (ONS 2022b). Exports to the US are particularly high in financial services and professional and management consulting services (ONS 2022c). As for goods, the UK and the US trade heavily in both directions in machinery and transport equipment and chemicals (ONS 2022d; ONS 2022e).

FIGURE 2.2: EXPORTS TO THE US IN 2021 TOTALLED £132.2 BILLION

UK exports by trade partner, 2021 (£m)



Source: ONS 2022b
Note: Data is in current prices and not seasonally adjusted.

Under president Trump, FTA negotiations between the US and the UK were opened, but they faced a number of controversies. There were particular concerns in the UK about US demands for market access for its agricultural products. Farmers and civil society groups warned that a trade deal could lead to weaker food safety standards – something firmly opposed by the majority of the UK public (Morris 2018).

Since president Biden entered office, negotiations have stalled. As discussed earlier in this section, the Biden administration's focus is on domestic economic reform and it has not actively pursued traditional free trade agreements. Moreover, there are particular concerns in the administration and in Congress about the UK's actions over the Northern Ireland protocol, the arrangement agreed between the UK and the EU to maintain the soft border on the island of Ireland after Brexit. US politicians have raised fears that the UK's attempts to unilaterally override the protocol could jeopardise the Good Friday Agreement and peace in Northern Ireland. House Speaker Nancy Pelosi has made clear that if the UK undermines the Good Friday Agreement then Congress will not be able to support a US-US trade deal (Borger 2022). While the FTA negotiations falter, the UK has begun to sign memorandums of understanding with individual US states – covering issues such as procurement and mutual recognition of qualifications –

though the value of these state-level deals is unlikely to be significant (Milligan 2022; DIT 2022c).

Despite these challenges, there has been some positive progress on UK-US talks at the federal level. In 2021, the US and the UK signed a new Atlantic Charter and joint statement upholding shared principles on democracy, human rights and multilateralism and outlining commitments on defence, science and technology, climate and nature action, the economy, and health protection (PMO 2021).

Building on the new charter, UK international trade secretary Anne-Marie Trevelyan and US trade representative Katherine Tai have hosted each other for a series of US-UK dialogues on the future of Atlantic trade. The dialogue in Baltimore coincided with an agreement on Trump-era steel and aluminium tariffs. Similar to the deal with the EU, the US agreed to not apply tariffs on imports below a quota based on historic trade volumes, while the UK agreed to remove retaliatory tariffs. The two parties also agreed to confer on the issue of excess capacity and on the possibility of joining US-EU discussions on the global arrangement on sustainable steel and aluminium. But in contrast to the US-EU deal, there was no agreement for the UK to formally participate in the global arrangement discussions (USTR 2022a).

There are now plans to develop a 'roadmap' for future cooperation on trade support for SMEs, digital trade, supply chain resilience, worker-centred trade, food security, and environmental and climate action. The discussions have highlighted a shared interest in upholding labour and environmental standards and supporting green trade (DIT 2022d).

3.
THE PROGRESSIVE TRADE AGENDA

The prospects for a strong US-UK trade relationship depend on whether the two governments can make progress on areas of shared policy interest. Perhaps the most promising topic for collaboration is 'progressive trade' – ie the ability of trade measures to contribute to wider objectives in areas such as economic inclusion, gender and racial justice, and environmental and climate action. While the progressive trade agenda has been a subject of discussion for decades, it has gained new momentum in the past few years as the trade policy landscape has shifted and the climate crisis has received growing political attention. In this chapter, we focus on two particular aspects of the progressive trade agenda: green trade and worker-centred trade.

GREEN TRADE

Green trade typically refers to the intersection of trade policy with environmental and climate objectives. For both the US and the UK, green trade is a key priority. President Biden has placed climate action at the centre of his administration, developing a whole-of-government approach aimed at tackling the climate crisis and working towards a target of net zero emissions by 2050 (White House 2021a). US trade representative Katherine Tai has warned that globalisation in its current form encourages the lowering of environmental protections and argued that trade policy should encourage a 'race to the top' on the environment and climate change (USTR 2021c). For its part, the UK government has published an economy-wide strategy for net zero and in a recent speech on green trade international trade secretary Anne-Marie Trevelyan set out ambitions for the UK to become a 'global leader' on this issue (BEIS 2021; DIT 2022e).

In practice, green trade can refer to a range of different trade policy tools for promoting climate and environmental action. Below we describe five broad approaches to green trade and discuss the US and UK stance on each.

Trade liberalisation

The traditional free trade approach to environmental policy has focussed on measures which simultaneously liberalise trade and support climate and nature objectives. Typically, this has included efforts to remove tariffs and non-tariff barriers on trade in environmental goods (such as bicycles and solar panels) and environmental services (such as waste and recycling services). Other measures may focus on addressing trade distortions and protecting the environment by reducing or eliminating environmentally harmful subsidies (such as fossil fuel and fisheries subsidies).

There have been some modest efforts towards green trade liberalisation at the WTO. Following earlier talks, in 2014 a sub-group of WTO members began negotiations on an agreement aimed at lowering tariffs on environmental goods, but discussions have since stalled over definitional disagreements (Reinsch and Benson 2021). More promisingly, at the recent WTO Ministerial Conference in June 2022, a deal was agreed on restricting harmful fisheries subsidies (WTO 2022b). In general, however, progress at the WTO has been extremely slow.

Reflecting the lack of consensus at the WTO, some countries – including New Zealand, Fiji, Norway, Iceland, Switzerland, and Costa Rica – have launched negotiations over an agreement on climate change, trade, and sustainability (ACCTS), focussed on removing barriers to trade in environmental goods and services, addressing fossil fuel subsidies, and developing guidelines on eco-labelling (New Zealand Government 2019).

The UK's approach to green trade has placed particular emphasis on liberalisation, in keeping with its free trade instincts. The government made the unilateral decision to liberalise trade when introducing the post-Brexit UK global tariff, which eliminated duties on 133 product categories defined as environmental goods and reduced duties on a further 57 environmental product categories (Riddell and Lowe 2021).

The UK has also taken action on green trade liberalisation through its international negotiations. The UK-New Zealand deal includes provisions on liberalising environmental goods and services (eg specifying an extensive list of environmental goods for immediate tariff removal) (DIT 2022f). Looking ahead, trade secretary Anne-Marie Trevelyan has argued that future trade deals will support the green transition in countries such as India (DIT 2022e). The government has fallen short, however, on addressing harmful subsidies: it has faced sustained criticism over continuing to provide large tax incentives for fossil fuels (Krebel et al 2021).

By contrast, the Biden administration has expressed a degree of scepticism towards the trade liberalisation agenda. In a recent speech, ambassador Katherine Tai critiqued the idea that trade liberalisation necessarily leads to environmental improvements, warning that trade rules should not create a 'race to the bottom' (USTR 2021c). President Biden's agenda on green trade is not primarily about opening up global markets; rather, the focus is in managing trade more effectively to improve environmental outcomes and support American industry.

Industrial strategy

A second area of activity focusses on the intersection of industrial strategy, environmental action, and trade policy. For many countries, green trade is intrinsically linked with supporting domestic industries – from renewable energy to electric vehicles – which can help provide a pathway to environmental sustainability. Relevant policy measures here cut across both trade and industrial policy: they include green subsidies, clean procurement, and low-carbon export promotion.

A central pillar of the Biden administration's approach to green trade is the strengthening of domestic clean manufacturing. One key priority is a 'buy clean' policy aimed at encouraging green public procurement, similar to how 'buy American' requires government procurement to preference domestic materials and products. President Biden has set up a buy clean taskforce to promote the use of low-emission construction materials, alongside a broader agenda to boost clean manufacturing, including investments in clean hydrogen initiatives, guidance on carbon capture, utilisation and storage, and support for research and innovation (White House 2022d).

The Biden administration's agenda on green industrial strategy has had a recent boost as Congress looks set to pass a package of climate measures as part of the proposed Inflation Reduction Act. These include a range of tax credits and other subsidies to support clean energy and manufacturing in the US.

In the UK, the government has perceived green industrial policy more narrowly. The intersection of green trade and industrial strategy has largely been focussed on encouraging inward investment and harnessing export opportunities (BEIS 2020). For instance, in a recent speech, the trade secretary discussed taking steps to develop the UK's green industrial base, through attracting greater foreign investment in clean energy projects and providing access to finance to increase green exports (DIT 2022e). While the government has outlined ambitious plans for a green industrial revolution, this has not yet been matched with commensurate action: the UK Treasury has tended to act as a roadblock to providing the levels of investment needed to decarbonise the economy (Harvey 2021).

Institutional reform

Another key area of focus for green trade is on the reform of international trade institutions – notably, the WTO. Campaigners have argued that the rules of the current trading system inhibit progress on environmental and climate action (Box 2021). In particular, some policies may fall foul of rules prohibiting discrimination between domestic products and products imported from other WTO members (the 'national treatment' principle) and rules requiring that imported products from any WTO member are treated no less favourably than imports from any other country (the 'most favoured nation' principle) (Lydgate and Anthony 2021).[5]

While in theory the general agreement on tariffs and trade (GATT) – the main international agreement governing trade in goods – allows for some circumstances where certain environmental measures could be exempted from its trade rules, the scope of these exemptions is contested. This has led some experts to propose the negotiation of a 'climate waiver' to ensure specified climate measures will not be subject to certain trade disciplines or a 'peace clause' to temporarily avert any WTO challenges to relevant trade-related climate policies (Monkelbaan 2021).

The US and the UK have both recently spoken of green WTO reform. Within the WTO, both countries are involved in a new plurilateral green trade initiative – the trade and environmental sustainability structured discussions (TESSD). This initiative is separate but complementary to the pre-existing WTO Committee on Trade and Environment, which is currently chaired by UK permanent representative Simon Manley. The 2022 workplan of the ESSD focusses on areas such as trade-related climate measures, trade in environmental goods and services, and the circular economy (WTO 2022c). But the challenges in finding consensus at the WTO – and the scale of reform required – suggest that the prospects for substantive change in the short term are low.

Conditional trade

An area of growing importance in the debate on the intersection between trade and environmental policy is 'conditional trade' – that is, the idea that trade liberalisation should be directly linked to environmental commitments and outcomes. There are a number of possible rationales for this approach, including helping to avoid any negative environmental impacts associated with liberalisation, creating a 'level playing field' for businesses, and using the offer of market access as an incentive for countries to take environmental and climate action.

For many years, EU and US FTAs have included environmental or sustainability chapters with commitments on green trade – for instance, non-regression clauses or reaffirmations of multilateral environmental agreements. However, they have often been worded loosely and hard to enforce. As green trade has increased in prominence, interest has grown in stronger forms of FTA conditionality.

5 More fully, the principles of national treatment and most favoured nation apply to goods, services, and the protection of intellectual property.

The UK and the US have made some progress on conditional trade in recent years. The UK-EU Trade and Cooperation Agreement (TCA) contained robust 'level playing field' provisions on the environment and climate change. The fight against climate change is included as an 'essential element' of the TCA and the treaty can be suspended or terminated if either party 'materially defeats the object and purpose' of the climate-focused Paris Agreement (Gehring 2021; Wachowiak 2021). Commitments to the Paris Agreement and net zero were also embedded into the recent UK-New Zealand FTA, though the equivalent text in the deal with Australia is considerably weaker after the UK's asks were watered down during negotiations (DIT 2022f; DIT 2022g; Coates 2021).

In the US, the situation is different, given there have been no new FTAs in recent years – with the exception of the US-Mexico-Canada Agreement (USMCA) negotiated during the Trump presidency. The USMCA contains new provisions on the environment – including on wildlife trafficking, marine litter, and food waste – but avoids explicitly addressing climate change (Laurens et al 2019). Under the Biden administration, ambassador Tai has said the USTR will place greater emphasis on enforcement of the environmental components of existing deals, including the USMCA (USTR 2021c).

Trade adjustments and regulation

A related issue in the green trade debate focusses on how trade policy should address negative spill-over and competitiveness effects resulting from the different ways in which countries respond to the environmental and climate crisis. Countries are increasingly concerned that, as they ramp up their nature and climate policies, their efforts will be undermined by weaker legislation elsewhere and they will be put at a competitive disadvantage. Some have therefore warned about trade facilitating a 'race to the bottom' on environmental protection, because it incentivises countries to adopt lighter regulation. In response, countries are considering a range of measures aimed at regulating imports. In contrast to the discussion above on conditional trade, the focus here is on unilateral action.

One area of particular concern is over carbon leakage – that is, where one country's efforts to reduce carbon emissions are offset by the displacement of emissions to other countries with weaker climate policies. This can happen when high-emitting firms save on costs by relocating to less regulated territories, from where their products may then be imported back into the original country. Concerns over this tend to be twofold: first, any progress on reducing country emissions could be undermined if they are counterbalanced by emissions rising elsewhere; second, ambitious climate policies could put countries at a competitive disadvantage if it is cheaper for businesses to simply base themselves in countries with more lax regimes (Morris and Nanda 2021).

Another area of concern is over differing standards for agri-food products. Environmental groups and businesses have warned that imports subject to production standards weaker than those which apply to domestic products could undermine national policies and threaten competitiveness (WWF 2021; Buckwell et al 2022).

So far, the EU has taken the lead in the debates over trade adjustments and regulation. The EU is currently developing plans for a carbon border adjustment mechanism (CBAM), which is designed to address the issue of carbon leakage. The aim of the CBAM is to ensure imports face the same carbon price as domestic products. The EU's domestic carbon price is based on its emissions trading system (ETS), a 'cap and trade' policy. Under the ETS, covered installations (eg most power stations and certain industrial plants) purchase or receive emissions allowances, which they must surrender each year in correspondence to the level of greenhouse gases emitted. Emissions allowances can be traded between installations and there is a cap on the total number, creating a carbon price (EC nd).

The CBAM will ensure that this carbon price applies to imports as well. According to the Commission's initial proposals, importers of products in key sectors susceptible to carbon leakage – including iron and steel, aluminium, cement, fertilisers, and electricity – will be required each year to declare the embedded emissions of their imports. Based on their embedded emissions, importers will have to surrender to national authorities a corresponding number of pre-purchased CBAM certificates. These certificates are purchased at a cost equivalent to the carbon price under the ETS. The CBAM is expected to begin a transitional phase in 2023 and enter into full operation in 2026 (EC 2021).

There are also plans underway on the issue of production standards in the agri-food industry. The French government has made the case in the EU for the idea of 'mirror clauses' – that is, the application of the same standards (including environmental, animal welfare, sanitary, and phytosanitary standards) to imported goods as that are applied to those produced in the EU (Rees 2022). France's argument is that rules for overseas imports should 'mirror' those of domestic production in order to ensure a level playing field for EU industries.

However, carbon border adjustment mechanisms and 'mirror clauses' have both faced the criticism that they are motivated more by protectionist than environmental aims. There appears to be a tension between these policies and WTO rules on non-discrimination: for instance, WTO members are in general not meant to discriminate between 'like' domestic and imported products, even if they are produced using different methods. The precise design of these trade instruments will be important for ensuring WTO compatibility and avoiding an international backlash.

Compared with the EU, the UK has been more reluctant to develop an approach to green trade focussed on border adjustments and import standards. While the UK Treasury has recently announced a consultation on mitigating carbon leakage – including the possibility of a CBAM – it has made clear its preference for a multilateral solution on carbon pricing and regulations (Frazer 2022). The government has resisted approaches to green trade based on implementing robust national standards, instead favouring softer measures based on international cooperation (DIT 2021b).

In the US, there is a growing policy discussion over green trade and the regulation of imports, particularly with respect to carbon border adjustments. But while the Biden administration has suggested it is exploring the possibility of a CBAM and there is bipartisan interest in the idea, there are some major practical hurdles. Most importantly, the US does not (and does not intend to) have a domestic carbon pricing system, raising the question of what the CBAM should adjust against. Some US lawmakers have responded to this concern by developing a proposal for a carbon import fee based on the costs incurred by companies from domestic climate regulation (Coons 2021). While this appears to be the most plausible way forward, there are concerns over how to translate climate regulations into an equivalent carbon price in a way which ensures parity of treatment between domestic and imported products.

Finally, the development of different carbon border adjustment proposals has also coincided with a growing policy debate over 'climate clubs'. The basic principle of climate clubs – first proposed by the economist William Nordhaus – is based on a group of countries agreeing shared climate policies (eg a minimum carbon price in Nordhaus' proposal) and sanctioning non-participants (Nordhaus 2015). In the context of carbon border adjustments, countries with similarly ambitious climate measures could group together to form a climate club and apply a common CBAM to imports from non-members, while exempting each other. While in principle climate clubs aim to incentivise progress on global emissions reductions, some have pointed to potential pitfalls: namely, there is a risk that they undermine broader multilateral initiatives and end up protecting domestic industries rather than spurring on climate action (Falkner et al 2021).

At the recent G7 summit, leaders agreed to form a climate club by the end of 2022. The statement outlines three pillars to the new club: “advancing ambitious and transparent climate mitigation policies”, “transforming industries jointly to accelerate decarbonisation”, and “boosting international ambition through partnerships and cooperation”. The precise details of the club have not yet been determined (G7 2022). Relatedly, the US-EU discussions over a global arrangement on sustainable steel and aluminium indicate the beginnings of a potential climate club for the steel and aluminium industries – an idea recently proposed by trade experts Todd Tucker and Timothy Meyer (2021) – but discussions are at an early stage and it is unclear how they may develop.

WORKER-CENTRED TRADE

As discussed in the previous chapter, the Biden administration has developed a vision of ‘worker-centred’ trade, focused on promoting the rights and interests of workers through trade policy (USTR 2021a). While including labour consideration within trade has been a subject of discussion for decades, the Biden presidency has helped to place it at the centre of US trade engagement. By contrast, the UK government is less inclined to talk about trade policy in the context of workers’ rights, but it has demonstrated a focus on using trade to support its ‘levelling up’ agenda (ie the tackling of regional inequalities across the UK).

Following the structure of the last section, below we discuss five approaches to worker-centred trade and the respective stances of the US and UK.

Trade liberalisation

Traditional free-market approaches to trade policy have argued that liberalisation – ie reducing tariffs and other barriers to trade – can benefit workers by supporting economic growth and creating jobs. According to this approach, a worker-centred trade policy should focus on reducing barriers to trade and avoid the imposition of new tariffs. Where workers have lost out as a result of free trade, the traditional free trade argument is for redistributive measures to compensate them – for example, through the Trade Adjustment Assistance programme in the US.

The UK government is sympathetic to this trade liberalisation approach. It has touted the benefits of negotiating free trade agreements for attracting investment and creating jobs (DIT 2022h). It has also highlighted the importance of trade for levelling up – noting, for instance, that Scotland, Wales, the North East and the Midlands are expected to be the greatest beneficiaries of a UK-US FTA (DLUHC 2022).

The Biden administration is more sceptical. Over recent decades, there has been growing evidence in the US about some of the negative impacts of trade on workers – notably, research suggesting that exposure to import competition from China reduced manufacturing employment and placed downward pressure on wages in local labour markets (Autor et al 2013). President Biden’s stance on worker-centred trade is in key respects a rejection of the traditional trade liberalisation approach common to US administrations before the Trump era.

Industrial strategy

In contrast to the above approach focussed on trade liberalisation, some industrial policy advocates have argued that more interventionist measures can be used to support domestic industries and jobs. These may include subsidies, local content requirements, and export promotion measures.

In the UK, the government's approach to industrial policy has lacked a clear focus after it replaced its prior industrial strategy with a new 'Plan for Growth' and abolished its Industrial Strategy Council (Mazzucato et al 2021). The intersection of industrial and trade policy is currently limited largely to strategies to encourage foreign investment and boost exports. The government has argued that export promotion can play a role in its 'levelling up' agenda. These efforts are primarily focussed on providing advice, support and financial assistance to exporting businesses (as well as potential exporters). The government's flagship policy of establishing new freeports is similarly aimed at increasing trade and investment and supporting job growth in sea port areas, particularly in more disadvantaged parts of the country (DIT 2021c).

The US approach to trade and industrial policy is considerably broader. The Biden administration has placed a particular focus on protecting and strengthening domestic manufacturing industries through measures such as infrastructure investment, research and innovation, supply chain management, and public procurement. For instance, the administration has announced it will tighten 'buy American' rules by increasing the domestic content threshold and introducing higher price preferences for certain critical goods (White House 2021b). This ties with president Biden's wider 'Build Back Better' agenda, which aims to revitalise American industry in the wake of the pandemic.

Institutional reform

As with green trade, another approach to worker-centred trade is focussed on institutional reform. This includes reform at the WTO level – such as efforts intended to embed labour standards into WTO rules – as well as broader measures aimed at ensuring the involvement of workers in decisions over trade policy.

The Biden administration has emphasised the importance of worker voice as a key component of its trade agenda. The USTR has committed to workers having a 'seat at the table' in discussions over trade (USTR 2021a). The administration has also called for reform at the WTO to reflect workers' interests – for instance, tabling a proposal on tackling forced labour on fishing vessels during the negotiations over fisheries subsidies (USTR 2022b).

By contrast, the UK government has shown less interest in the representation and empowerment of workers in its trade policy. It has faced criticism from the Trades Union Congress (TUC) for failing to properly consult unions when negotiating trade deals (O'Grady 2022). At the WTO, labour rights do not appear to be a major priority for the government, though addressing forced labour is part of its multilateral trade agenda (DIT 2021d).

Conditional trade

One of the main approaches taken by those who support a worker-centred trade agenda is to make market access conditional on whether a country sufficiently protects labour rights. This might be intended to protect and promote labour rights internationally or to address concerns over unfair competition (or both).

For many years, US and EU trade deals have typically included 'trade and labour' or 'trade and sustainable development' chapters within FTAs. These chapters have included labour provisions similar to the environmental provisions discussed earlier – such as non-regression clauses and commitments to uphold ILO (International Labour Organisation) core standards.

In practice, however, these provisions have had their limitations. Generally, labour commitments have either not been subject to trade sanctions or have proved hard to enforce (or both) (Harrison 2019). In the first major trade dispute over labour standards – between the US and Guatemala under the Dominican Republic-Central America FTA (CAFTA-DR) – the arbitration panel rejected the US government's claim that Guatemala had breached the agreement by not enforcing its labour laws. This is because under the terms of the agreement the US was required to prove that Guatemala had "fail[ed] to effectively enforce its labour laws, through a sustained or recurring course of action or inaction, in a manner affecting trade between the parties" – a test which the US was ultimately unable to meet in full (Arbitral panel report 2017).[6] This case has signalled the challenges involved in enforcing labour provisions within trade agreements.

Labour conditionality is not a major focus of the UK's current trade agenda. While labour chapters are included in its deals with Australia and New Zealand, they do not appear to have been a priority in the negotiations. There are robust and expansive 'level playing field' measures on labour standards in the UK-EU TCA, but these were primarily a product of EU concerns over UK deregulation (Morris 2022).

The Biden administration, on the other hand, has placed considerable emphasis on labour standards in trade deals – primarily through enforcing the provisions within the USMCA. The USMCA negotiations led to the agreement of significantly stronger labour provisions than under its predecessor, the North American Free Trade Agreement (NAFTA). These included a new US-Mexico Rapid Response Mechanism (RRM), which is a tool for enforcing free association and collective bargaining rights at individual facilities (USTR 2020). The USMCA also switched the burden of proof for the 'manner affecting trade' test with respect to key provisions on labour rights, stipulating that effects on trade or investment should be assumed unless it can be shown otherwise. The latter change reflects how the US has learnt from the outcome of its dispute with Guatemala and should make the provisions easier to enforce (Claussen 2019; Corvaglia 2021).

The Biden administration has prioritised the effective implementation of the new USMCA labour provisions. So far it has made five requests for reviews under the RRM of potential labour rights violations in specific facilities in the automative sector in Mexico (USTR 2022b; USTR 2022c; USTR 2022d). In two of these cases, after action under the RRM Mexican workers have voted to be represented by new independent unions (USTR 2022b; USTR 2022e). Most recently, a third case involving the Panasonic auto parts facility was resolved after the company agreed to recognise the elected independent union and they concluded a new collective bargaining agreement (USTR 2022f). The administration has highlighted these developments as tangible examples of president Biden's worker-centred trade policy in action.

Trade adjustments and regulation

The final area of worker-centred trade focusses on regulating imports to ensure adequate labour standards along supply chains. Most of the focus in this area has been on (unilaterally) applying trade rules in relation to forced labour, including due diligence requirements and import bans. As with the 'mirror clauses' discussed above, bans on the imports of goods made with forced labour could face challenges at the WTO on the basis that they breach rules on discrimination between 'like' products. While there are exceptions under the GATT, compatibility

6 The panel found that Guatemala had on one occasion failed to effectively enforce its labour laws in a manner affecting trade or investment, but this alone did not constitute a sustained or recurring course of inaction or inaction. At the same time, it assumed for the sake of argument that multiple enforcement failures by Guatemala did together constitute a sustained or recurring course of inaction or inaction, but it determined that this was not in a manner affecting trade or investment. As a result, the panel ruled against the US (Arbitral panel report 2017).

with WTO law will depend on the precise design of any forced labour rules (Morgandi 2022).

In the US, the Biden administration has prioritised tackling forced labour as part of its worker-centred trade agenda (USTR 2022b). Under section 307 of the Tariff Act of 1930, the US bans imports mined, produced, or manufactured using forced labour. Originally, there was an exception for products not made in the US in enough quantities to meet domestic demand (the 'consumptive demand' clause), but this was repealed by Congress in 2015. Since then, there has been an increase in section 307 actions. There has been a particular focus on products from the Xinjiang region of China, due to concerns about the forced labour of Uyghurs. In 2021, Congress passed the Uyghur Forced Labour Prevention Act, which places the burden on importers to prove that products mined, produced, or manufactured in the region of Xinjiang have not been made using forced labour. This in effect legislated for a default ban for imports from the region (CRS 2022).

The UK has a shared interest in tackling forced labour in supply chains. While it has not yet proposed legislation restricting imports made with forced labour, the government sees itself as a global leader on the issue of modern slavery and there appears to be appetite to take action in line with recent US policy (Casalicchio 2021). The US and the UK have included combatting forced labour globally as a shared commitment at the dialogues on the future of Atlantic trade (DIT 2022i).

4.
THE FUTURE AGENDA FOR PROGRESSIVE US-UK TRADE

At the recent dialogues on the future of Atlantic trade, the US and the UK signalled that they want to strengthen the bilateral trading relationship across a number of fronts. As discussed in the previous chapter, a key area of shared interest is 'progressive trade' – in broad terms, the pursuit of inclusivity, sustainability, democracy and human rights through trade policy. Previous chapters have described how in some areas of progressive trade the US and the UK are closely aligned, while in others they have adopted different approaches to common challenges.

In this chapter we set out a potential joint US-UK agenda for progressive trade, focussed on three main areas of collaboration:

1. a joint progressive trade framework
2. a sectoral agreement on sustainable steel and aluminium
3. a long-term plan for an ambitious FTA.

While we recognise there are other key areas where joint progress could be made – for instance, on digital trade, supply chain resilience, and countering non-market practices – for the purposes of this report we focus on the intersection of trade policy with environmental, climate, and labour matters.

As set out in the previous chapter, there are multiple approaches to 'progressive trade' – some complementary, some contradictory. For the recommendations in this report, we have drawn on a range of trade policy measures across the differing approaches laid out above. The recommendations have been led by three key considerations. First, what are the most effective measures for supporting environmental, climate and labour objectives? Second, which measures can strengthen the US-UK relationship and support trade and investment? Third, where do the US and UK have shared interests and what measures might they be expected to agree on? These considerations have led us to focus on the following areas for shared action.

1. A US-UK FRAMEWORK FOR PROGRESSIVE TRADE

First, we recommend that the UK and the US agree a new Framework for Progressive Trade (FPT). The FPT should outline shared principles and action points on how trade policy can promote environmental and labour ambitions.

Our proposal for a new FPT is based on the approach taken by the Biden administration to the Indo-Pacific Economic Framework for Prosperity (IPEF). While the FPT would not be a free trade agreement, it could help to strengthen US-UK trade relations and provide a framework for making progress on a number of key areas of progressive trade, while aligning with the US government's current trade agenda.

As detailed in IPPR's previous report on US-UK trade, we have identified three core principles which should underpin the FPT.

- **Supporting equitable growth, both domestically and globally:** A progressive trade agenda on equitable growth should involve using trade policy to make progress on strengthening employment standards, supporting decent work, reducing disparities in income and wealth, and promoting gender and racial equality.
- **Addressing the climate and nature crisis:** A progressive trade agenda on climate and nature should involve using trade policy to promote high environmental standards, encourage decarbonisation, address biodiversity loss, and support the global green transition.
- **Promoting democracy and human rights**: A progressive trade agenda on democracy and human rights should involve using trade policy to tackle forced labour and exploitation, advocate for transparency and accountability, and support the rule of law.

Alongside articulating these core principles, the US and the UK should develop a series of immediate action points to put them into practice. Below are four priorities for collaboration under the FPT.

Prohibiting imports made with forced labour

The UK and the US should agree a joint approach on the import of products made with forced labour. In particular, the UK should follow the US's lead and legislate for an import ban targeting goods made using forced labour – either wholly or in part – anywhere along the supply chain. The legislation should include a ban on imports from the Xinjiang region unless the UK government determines that there has been no use of forced labour. This would help to align the UK and US approaches to tackling forced labour and could encourage other trade partners to adopt similar practices.

Promoting green and worker-centred trade at the WTO

The US and the UK should agree on common aims for WTO reform to safeguard and improve labour and environmental standards. In particular, they should advocate for a moratorium or temporary 'peace clause' to allow for members to enact certain trade-related climate mitigation measures without facing a WTO challenge. This would give members greater confidence in applying decarbonisation policies which affect trade or investment. The peace clause should be carefully designed to avoid members using it to pursue protectionist measures which do not prioritise climate action. While consensus is likely to be challenging, the US and the UK should aim to promote proposals such as a peace clause at the WTO in order to ensure that they remain high on the agenda and shape future reform initiatives.

Preventing imports linked to illegal deforestation

The FPT should include a joint commitment to prohibit the import of commodities from illegally deforested land. As part of its plan for a fair transition, IPPR's Environmental Justice Commission has argued for action on tackling deforestation in food supply chains (EJC 2021). The UK is soon to implement measures under the Environment Act which ban the use by large companies of certain illegally produced 'forest risk commodities', while in the US Congress a bipartisan bill has been introduced aimed at blocking imports linked to illegal deforestation (the FOREST Act) (Weiss et al 2022).[7,8] This suggests there is a clear basis for joint working and aligning approaches. We propose that the UK and the US should collaborate on the most effective measures for regulating imports linked to illegal deforestation, including considerations over which commodities and businesses should be in scope,

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7 See: Environment Act 2021, Schedule 17. https://www.legislation.gov.uk/ukpga/2021/30/schedule/17/enacted

8 See: S.2950 – FOREST Act of 2021. https://www.congress.gov/bill/117th-congress/senate-bill/2950/text

details of due diligence obligations for importers, and measures for monitoring and enforcing the rules. This would help to form a basis for future bilateral cooperation on addressing other environmentally harmful imports.

Addressing carbon leakage

The US and the UK should develop a common approach to addressing carbon leakage. This is one of the most complex areas of the green trade agenda and both countries are still in the process of developing their positions. But if both sides could agree shared principles, this could strengthen their individual approaches, provider greater policy consistency for trading partners, and build momentum towards solutions to carbon leakage globally. We suggest the following principles.

1. The US and the UK could jointly recognise that, while a global agreement on carbon pricing and regulation would be the most effective way of tackling concerns over carbon leakage, in the shorter-term carbon border adjustment mechanisms (or CBAMs) are likely to be needed.
2. These adjustment policies should be aimed at progressing climate action rather than protecting domestic industries. The introduction of a CBAM should be combined with further efforts to decarbonise industry at the domestic level.
3. Policies should be implemented fairly and in line with WTO rules. Any country measures targeting imports should reflect similar measures applying to domestic emissions.
4. Any carbon border adjustment measure must recognise and account for the impacts on developing economies. Where appropriate, this should include exemptions for least developed countries (LDCs) and parallel commitments to support developing economies in making the green transition.
5. The UK and the US – along with other like-minded partners – should work together to develop a common approach to measuring embedded greenhouse gas emissions. This would help to ensure that any carbon leakage policies are well-coordinated. It would also help to develop a sectoral agreement on steel and aluminium, as discussed further below.

2. A SECTORAL AGREEMENT ON SUSTAINABLE STEEL AND ALUMINIUM

Alongside the FPT, the UK and the US should work alongside others on negotiating a sectoral agreement on sustainable steel and aluminium.

There are a number of reasons to prioritise a sectoral agreement of this type. The political signals from the US suggest that the greatest chance for substantive progress on trade in the short term is through a sectoral focus, given the Biden administration's interest in bespoke deals over comprehensive FTAs. A narrowly focused deal also in principle has greater scope to be implemented through executive action and so could bypass the difficulties of passage through Congress.

At the same time, steel is a priority for international climate action, given the iron and steel industry directly contributes to around 7 per cent of global energy system CO2 emissions (IEA 2020). Moreover, there is already a major policy focus on trade in steel and aluminium: as discussed in chapter two, the US has imposed section 232 tariffs on steel and aluminium imports on the basis of national security considerations. The Biden administration has recently negotiated the partial lifting of tariffs with the EU, the UK, and Japan and has begun discussions with the EU over implementing a global arrangement on sustainable steel and aluminium – described by the US as the first ever carbon-based sectoral arrangement (White House 2021c). There is therefore momentum towards a sectoral agreement on sustainable steel and aluminium.

We propose that the UK joins the discussions on the global arrangement currently taking place between the US and the EU. Given these negotiations are going ahead already and the US and the EU are the UK's two largest trading partners, there is a clear case for the UK to be involved. Moreover, we recommend that the UK helps to shape the discussions by exploring where consensus can be found between the three parties. Since the UK is enthusiastic to build trade links with the US and already has a similar carbon pricing policy to the EU, it is in principle well-placed to make a constructive contribution to the discussions.

Our central proposal is that the UK, US, and EU – as well as other like-minded trade partners – should agree a global arrangement based on a common approach to carbon border adjustments for the steel and aluminium sectors, combined with an agreement to exempt each other from their own adjustment measures where justified. The global arrangement should be open to all countries with ambitious decarbonisation policies in the steel and aluminium sectors. It should be designed from the outset with the aim of spurring climate action rather than the protection of domestic industries. Moreover, special consideration should be given to ensure that the arrangement does not unfairly disadvantage developing economies.

To work towards a global arrangement on steel and aluminium, we propose the following steps. First, as part of the discussions on the global arrangement, members should collaborate on a shared approach to measuring embedded emissions in steel and aluminium products. This could draw on existing literature and methodologies, such as the Greenhouse Gas Index developed by the environmental non-profit Resources for the Future (Flannery and Mares 2021).

Second, the discussions should develop a common approach to comparing the effects of carbon pricing measures with other non-pricing climate policies (eg production standards). While this is a technically and politically challenging task, it is likely to be the only way forward to negotiate a transatlantic sectoral agreement, given the US is not expected to introduce an explicit carbon price in the short-to-medium term.

Third, members should agree shared decarbonisation commitments in the steel and aluminium sectors. This should be based on mutually agreed targets for average embedded emissions in steel and aluminium products which ratchet down over time.

Fourth, members of the global arrangement should agree to introduce carbon border adjustments covering the steel and aluminium sectors (at a minimum). These adjustments should apply the same carbon price to steel and aluminium imports as that which applies to their domestic products. Where members do not have a domestic carbon price, an equivalent should be calculated based on their non-pricing policies, using the common approach agreed through the discussions.

Fifth, where multiple members of the global arrangement implement a domestic carbon price for the steel and aluminium sectors at a similar level and above an agreed minimum – either through an explicit carbon pricing system or through equivalent measures – they should agree to exempt each other from their carbon border adjustments.

Finally, the global arrangement must include an agreement to support developing economies to decarbonise their steel and aluminium industries. Members of the global arrangement should agree to commit to using funds from their carbon leakage measures to support investment in green steel and aluminium technologies in developing countries.

We recognise this proposal is necessarily imperfect and at risk of WTO non-compliance, particularly given the key players do not currently share a common carbon pricing policy. But since the US is highly unlikely to introduce a domestic carbon price, this is in our view the best available option to support transatlantic relations on climate action and limit the risk of unilateral carbon border measures exacerbating trade tensions. It would also help to encourage international policy alignment on carbon leakage in relation to steel and aluminium, which would offer greater consistency for industry. Moreover, a sectoral deal could provide the impetus for stronger global coordination on addressing carbon leakage more broadly.

3. A LONG-TERM PLAN FOR AN AMBITIOUS FTA

Our third set of proposals focus on the potential for a progressive UK-US FTA. While a trade deal with the UK is not a short-term priority for the US government, there is still the prospect of an agreement in future. It is therefore critical to explore what such a deal may include.

A future US-UK FTA poses both risks and opportunities. There are legitimate concerns about the implications of a deal – including for food safety standards and the National Health Service in the UK – and neither party should enter into an agreement which undermines public services or protections for workers or the environment. But there is also potential for an ambitious FTA which breaks new ground for progressive trade. As we argued in IPPR's previous paper on the US-UK trade relationship, the US and the UK have the opportunity to negotiate the greenest trade deal in history, with a series of ambitious commitments on labour and environmental standards and climate action (Morris and Nanda 2021).

Building on the approach outlined in our earlier paper, we recommend the US and the UK plan the inclusion of the following provisions within a future FTA.

Trade in environmental goods and services

The UK and the US should prioritise the immediate removal of all tariffs on an agreed comprehensive list of environmental goods. They should also work to liberalise trade in environmental services, including in green finance and other business services. At the same time, the agreement should include provisions for either party to impose necessary and proportionate barriers (such as tariffs) if they can evidence that trade in specific products is directly causing material environmental damage. This would help to promote green trade while providing scope to address environmentally harmful imports.

Enforceable non-regression clauses

The FTA should include robust non-regression clauses, committing both parties to not weaken or lower labour and environmental protections in a manner affecting trade or investment, and to enforce their own laws accordingly. In line with existing US practice, the non-regression clauses should be subject to formal dispute resolution and trade sanctions should be permitted in the event of a breach. Following the model of the USMCA, the burden of proof should be shifted so that any act of non-regression is assumed to affect trade or investment unless proven otherwise. The non-regression provisions should explicitly refer to a comprehensive set of areas in environmental and labour policy, including air and water protection, nature and biodiversity, and climate action, as well as freedom of association and collective bargaining, equal treatment, occupational health and safety, and the minimum wage.

Protection of food standards

To address concerns that the deal could lead to weaker standards in the UK, there should be strong provisions guaranteeing each party's right to regulate and ensuring that the UK's food hygiene rules (for example, restrictions on imports of hormone-treated meat and chemical-washed poultry) will not be undermined. While this is likely to be a contentious issue in the negotiations, there may be a way forward to satisfy all sides: the UK could negotiate a temporary veterinary agreement on trade in agri-food products with the EU in order to help address the challenges with implementing the Northern Ireland protocol. The US has indicated privately that a temporary agreement of this type would not be a barrier to a UK-US FTA (Pogatchnik 2021). This proposal could therefore both help to resolve the dispute over the Northern Ireland protocol and ensure UK food standards are protected in future negotiations with the US.

Net zero commitments

Market access in the US-UK FTA should be conditional on climate action. The deal should include a provision allowing for its suspension if either party reneges on the Paris Agreement or their net zero commitments. It should also include regular review clauses to ensure each party is reducing their net greenhouse gas emissions. Where one party implements new measures which materially increase net emissions in a manner affecting trade or investment, the other party should have the option to impose trade sanctions in response. These provisions would set a new standard for embedding climate policy within trade agreements.

5. CONCLUSION

The US-UK trade relationship lies at an uncertain juncture. The US is one of the UK's largest trade partners and is of critical importance for its post-Brexit foreign policy. President Biden and prime minister Johnson recently renewed their two countries' special relationship through a new Atlantic charter focussed on cooperation in trade and other areas. Yet trade talks have stalled in recent years amid a shift in priorities within the US and growing concern over the UK's dispute with the EU on the Northern Ireland protocol. While there has been some recent progress on steel and aluminium tariffs, there is scope for strengthening transatlantic trade ties in the years ahead.

In this report, we have set out how the US and the UK can revitalise trade relations through a new progressive trade partnership. We propose that the UK and the US develop a Framework for Progressive Trade, based on the shared values of supporting equitable growth, tackling the climate and nature crisis, and promoting democracy and human rights. Our recommendations for the framework include addressing imports linked to forced labour and deforestation, advocating for WTO reforms to protect workers' rights and the environment, and agreeing shared approaches to addressing carbon leakage. Alongside this framework, we argue that the UK should work with the US, the EU and other countries to negotiate a sectoral deal on low-carbon trade in steel and aluminium. In the longer term, the US and the UK should work towards negotiating the greenest free trade deal in history, with provisions on environmental goods and services, enforceable non-regression clauses, and robust net zero commitments.

The progressive US-UK trade partnership laid out in this report would bring multiple benefits for both countries. It would help to bridge the UK's interest in growing its trade relationships post-Brexit with the Biden administration's focus on worker-centred and green trade. For businesses, it would also offer greater policy coherence and consistency on global trade measures. Finally, a progressive trade partnership would demonstrate how trade talks can both deepen economic ties and effectively support shared ambitions on labour, climate, and nature. This could serve as a useful model for other trade negotiations in the years ahead.

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