BRITISH CHAMBERS OF COMMERCE
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Memorandum on US-UK Trade
British Chambers of Commerce, February 2025

Following the White House discussions between the Prime Minister and the President of the United States on 27 February, the UK and US are likely to begin a process of dialogue to reach agreement on tariffs, technology/AI co-operation, and investment. The US is the largest single country trading partner which the UK has, worth £300bn in bilateral trade per annum, and second only to the EU if the EU27 are counted as a single entity. The current pattern of UK exports to the US is around £61bn per annum in goods exports, and £112bn per annum in services exports. The US is the largest inward investing country into the UK, with around £700bn of inbound FDI stock in the UK.

We welcome the commitment made last week in the Presidential Memorandum to keep services or goods delivered electronically free of duties and would urge the UK government to work closely with USTR on means of securing this permanently at global level – the current arrangements are due to expire in 2026 at the WTO Ministerial Conference 14 in Cameroon.

A successful outcome from this process might be to exempt the UK from the twin-track measures being pursued by the US on steel/aluminium across the board tariffs and from the impact of the reciprocal tariff measures.

We would recommend that the UK look to reach with the US an agreement which is focused on substantive outcomes rather than through a traditional free trade agreement model. The agreement should seek to:

- remove the risk of new tariffs on transatlantic trade in goods
- restate a common commitment to ensuring Mode 1 (remote or electronic) provision of services trade remains duty free and secure a permanent global deal on this basis
- facilitate co-operation on AI and technology building upon our existing data sharing arrangements
- prevent future harms to UK and US security interests
- safeguard and create a platform to boost transatlantic private investment.

Steel and aluminium tariff proposals

The tariffs on steel and aluminium imports to the US are set to be applied from 4 March. The UK and the EU have a tariff rate quota deal with the US which is set to be terminated by the US Administration on 12 March. For the UK, the terms of this deal mean up to 500,000 metric tonnes of steel can be exported to the US each year tariff free. In practice, the average levels of exports under the TRQ from the UK are at 116,000 metric tonnes per

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annum, around 5-7% of total UK steel exports. On expiry of the tariff rate quota, UK steel and aluminium exports to the US would be subject to tariffs from 13 March at the rate of 25%.

The President's Executive Order on steel and aluminium tariffs also proposes to extend the 25% tariffs to derivative steel products. Chamber Network members have outlined the range of derivative steel products exported to the US, including steel sculpts for assembly into scalpels for use in the US healthcare industry. It is their considered view that the US does not currently have the specific manufacturing capacity to address price rises or interruption in supply in these product areas arising from the imposition of tariffs.

Removing the risk of tariffs on UK steel and aluminium exports to the US would provide certainty for affected primary producers and downstream manufacturers as well as supporting key US supply and sourcing chains. We recommend that this be a key outcome of the UK-US negotiations and that as a first step, the UK should seek suspension of the proposed termination of the TRQ by the US Administration while negotiations on the wider agreement take place.

<u>Automotive, semiconductors, pharmaceutical tariffs</u>

The President has also stated over the past month that additional across the board tariff announcements in the sectors of automotive, semiconductors and pharmaceuticals would also be brought forward in due course. These would particularly negatively impact upon the UK pharmaceutical sector which currently sells into the US market on a zero-tariff basis.

<u>Reciprocal tariffs proposal</u>

The Presidents plans for reciprocal tariffs would involve the calculation of an ad valorum tariff to be applied to all of an individual country's goods imports to the US – presumably with the exception of those products already subject to the across the board tariff measures – steel and aluminium for now, and potentially moving into other goods sectors (see above).

The rate calculated for each country would depend on the degree of differentiation in applied tariff rates between those of the US and those of the other country, plus an assessment of regulatory and fiscal barriers which in USTR's view amount to non-tariff barriers to trade and US commercial interests. This could include an assessment of tariff equivalents of the cost of Digital Services Taxes, sales taxes and value added taxes.

Taking all of these measures together, Deutsche Bank economists have concluded that reciprocal tariffs would be heavily influenced by the inclusion of value added taxes in this

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assessment, leading to expected reciprocal tariffs of 25% on EU goods, and 24% on UK goods. Applying a flat rate of 24% across the UK's goods exports to the US over the last identifiable 12-month period, the tariffs would apply an effective bill on existing sales of £14.7bn. The impacts on trade could involve lost orders, reordering of sourcing chains, and loss of services trade (legal, financial, transport and others) associated with the reduced supply of affected goods by UK companies. Member companies have told us they will either need to raise their prices or seek other markets as alternatives for the sale of their goods.

Digital Services Taxes are subject to OECD agreements and are designed to be temporary in nature. Revenues from this tax amount to £700m per annum in the UK, and the future of this tax we understand government is discussing with key trading OECD trading partners.

Value Added Tax has been part of the UK system of tax since 1973, alongside the UK joining the European Economic Community, European Coal and Steel Community and Euratom (later European Union). VAT does not discriminate between the treatment of imports or domestically produced goods and services, and we do not accept the argument that it is a non-tariff barrier which distorts trade or otherwise prevents the movement of goods and services. Making the case for removal of VAT from any implementation by the US Administration from assessments made by USTR and the Department of Commerce is a key priority for UK business and our members.

Again, given the nature of trade discussions the UK is engaging the US Administration with, we would seek the suspension of any reciprocal tariff assessments to the UK while these negotiations take place.

Conclusion

The BCC supports negotiations between the UK and US which allow our bilateral trade and investment relationships to grow on a stable set of new arrangements in the interests of business in both the UK and US. We recommend these discussions produce agreements which are focused on the maintenance of a low tariff environment for the well-balanced trade in goods which exists between our two countries; taking forward our common ambitions on digital trade and keeping electronic transmission of goods and services duty free; setting out new forms of co-operation on AI and technology; and providing certainty around our valuable bilateral investment relationship.

As negotiations proceed we support the suspension of measures which could cause detriment to UK companies or sourcing and supply chains in the US, by ensuring that the steel and aluminium tariffs are not applied to the UK from 12 March, that the steel and aluminium Tariff Rate Quota remains in place during negotiations until new arrangements

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are put in place, that new tariff proposals from either side do not apply during the period of negotiation, and that any reciprocal tariffs assessment in relation to the UK is suspended from having effect while negotiations proceed.