

Committee(s)	Dated:
Public Relations and Economic Development Sub Committee	11 June 2019
Subject: Chair of Policy visit to Washington DC. May 2019	Public
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Summary

The City of London Corporation's Chair of Policy and Resources visited Washington for a series of meetings with senior government officials, politicians, financial regulators, policymakers and business representatives from 7-9 May.

Overview of key messages:

- The US continues to watch and wait for progress on Brexit – it is prepared for every eventuality.
- With respect to the future UK-US economic relationship Washington and the White House remains focused on trade. China and USMCA absorb nearly all bandwidth.
- There is desire for deeper bilateral dialogue on “shared equities”. But on immediate market access issues in services, the US has few short-term asks of the UK.
- Longer-term, there is recognition that Brexit offers opportunities for greater UK-US alignment and leadership in the international regulatory space.
- These views are underpinned by a nervousness about the direction of the EU's upcoming legislative cycle.

Recommendation(s)

Members are asked to note the report.

Background

1. The Policy Chair visited Washington DC from 7-9 May.

Main Report

Brexit: Puzzlement replaces concern

1. Brexit is no longer a political issue in the US. March's Westminster dramas set nerves jangling across the investment community, but not to the same extent in the White House. This is likely indicative of where Brexit features in this administration's packed priority list: “a blip on the radar”.

2. At a technical level, puzzlement has replaced concern. All consider the US to be as well-prepared as possible for every eventuality. There is disappointment and some surprise that the UK has not made more progress. We also fielded several searching questions about Brexit's impact on the UK's ability to effectively influence global affairs.

Trade: Current agenda and implications

Bandwidth issues: China, USMCA, WTO reform

3. Trade policy is leveraged as a tool for advancing US geopolitical interests. President Trump and United States Trade Representative Robert Lighthizer remain committed to reducing trade deficits and believe tariffs to be the only lever available for levelling global playing fields.
4. US-China relations and the United States-Mexico-Canada Agreement (USMCA) ratification absorb considerable bandwidth. Levelling the playing field and national security considerations underpin perceived defensive actions. Policymakers should note the USMCA 'China clause' (article 32.10) as an indication that the US will assess future trading partners based on their commercial links with China.
5. USMCA's ratification is however not certain. The evolving Democratic agenda is firmly consumer oriented. Republican free traders oppose USMCA's sunset provision for fear that it will discourage investment, and there is considerable disquiet at the near elimination of investor state dispute settlements (ISDS) from the agreement.
6. WTO issues are concentrating minds. Principal among concerns is the Appellate Body's operation against the backdrop of Chinese non-market activity. US officials seek "restoration rather than reform" and interpret the Body's regularly exceeding the 90-day decision-making commitments as evidence of an organisation overstepping its mandate.

Implications for a UK-US FTA: 'Wait and see'

7. The US is in "wait and see mode" when it comes to future UK-US trade. No significant investment of resource will go into the process until the future UK-EU relationship is better defined.
8. Many commentators expect a post-Brexit UK to have greater flexibility in services. Some see a future trading relationship underpinned by a series of mutual recognition agreements in services as a distinct, indeed the most likely, possibility.
9. Many countries are making concerted pushes to market themselves as attractive destinations for and sources of post-Brexit US investment. Ireland, the Netherlands and Germany lead the pack, in many cases with the backing of business chambers.

Trade: Focusing on financial regulation

10. Early efforts should focus on deepening regulatory relationships between the UK and the US. All are motivated to pursue greater dialogue where the UK and US have “shared equities”. The UK should not expect, however, an emergence of a ‘G2’ in international affairs.
11. The US has few specific short-term ‘asks’ of the UK. The bilateral relationship in financial and professional services (FPS) already works well. All recognise that some barriers to market access exist but that there would be value in binding current UK-US openness as a first step. Looking forward, experts see potential for developing a UK-US framework which identifies upcoming regulatory issues before they arise.
12. Emerging technology in the data-heavy FPS sector would be a natural area of focus. In these areas, philosophical UK-US agreement would be of value for the UK’s future negotiations with the EU. We found agreement that the US-UK Financial Regulatory Working Group, which meets again at the end of the month, could become the forum for rounding out these conversations.

US views on the EU: Philosophical divide

13. The US is watching closely as the EU prepares for a new legislative cycle. There is some trepidation as to what form the new Commission and Parliament will take with most expecting increased prescriptiveness around third country relations. EMIR 2.2 proposals are a source of concern. US reaction will focus firstly on guaranteeing future US openness based on deference before advocating a similar approach from ESMA and the European Commission.
14. This specific debate highlights the political, economic and cultural divide that exists between both jurisdictions. The idea of “legislating towards competitiveness” does not sit easily in the US.

Domestic policy agenda in FPS:

FBO proposals

15. The Fed’s focus is on tailoring post-crisis reforms based on addressing unintended consequences, especially for small and community banks. Fed officials underlined that the shape of proposed legislation was informed by industry input and are requesting comment on these latest adjustments ([here](#)).
16. One of the Fed’s objectives is that regulatory reform should not impede global flows of dollars except in situations where sound management of liquidity risk in US is threatened. Fed officials see natural kinship with UK counterparts owing to shared host and home country experience.

Market fragmentation

17. The market fragmentation agenda has generated positive discussions. Fed teams are identifying areas for more specific focus: derivatives markets, capital requirements, mutual recognition. There is interest in the Financial Stability Board's next steps, with the organisation already engaged on a vulnerabilities-tracking exercise.

ESG

18. ESG has the potential to become a classic example of market fragmentation should jurisdictions pursue the development of standards without co-ordination. US concerns about EU taxonomy proposals relate to their specificity. US institutions are yet to properly address this agenda. The Bank of England is credited for its work on Green Finance specifically and all agree that this is an area in which UK-US cooperation in standard setting would bear fruit.

FinTech. Digital. Privacy

19. US objectives in the FinTech and Digital Assets space are still taking shape. Data privacy is an immediate issue as Congress considers pursuing federal privacy legislation. In emerging technology, there is a strong sense that the UK and US are best-placed to drive standard-setting.

Reporting and next steps:

20. On her return, the Policy Chair sent visit reports to the Chancellor of The Exchequer and Secretary of State for International Trade. In parallel, the EDO circulated a report across the sector.

Conclusion:

21. The Policy Chair is building strong relationships with key actors who will play a central role in shaping the post-Brexit transatlantic relationship. The City of London is well-placed to influence this debate and is recognised as operating in a unique space. American interlocutors value our insights, understand our core objectives, agree with our philosophy and are grateful for our energetic engagement.

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