

McLarty Update: US and UK Sign Economic Prosperity Trade Deal

May 8, 2025

TOPLINE

The United States and the United Kingdom **announced** today the outlines of “The Economic Prosperity Deal”, the first bilateral trade deal resulting from the imposition – and subsequent pause – of President Trump’s “Liberation Day” reciprocal tariffs. Trump was joined virtually for the announcement by UK Prime Minister Keir Starmer, who spoke from a Jaguar Land Rover factory. While both leaders extolled the virtues of the deal and noted the long-standing partnership of the US and the UK, details on some of the agreement’s substantive commitments and potential for future negotiations on unresolved trade concerns remain somewhat unclear, though both sides publicly acknowledged some key deliverables: **preferential treatment for UK autos, steel, and aluminum exports in return for improved market access for US ethanol and beef.**

Other countries currently engaged in, or awaiting their turn to start negotiations with the United States will take note of a few key details; namely that the **10% baseline tariff appears non-negotiable while the Section 232 tariffs may be up for discussion.** Furthermore, the two sides appeared unable to resolve a key concern of the Trump administration – the UK’s Digital Services Tax (DST), though the White House signaled they will continue to press the UK on the issue.

TERMS OF THE DEAL

The agreement maintains **the new 10% baseline reciprocal tariff on the UK**, but the US agreed to provide relief for certain Section 232 sectoral tariffs. Under the conditions of the deal, **the US agreed to reduce its 25% tariffs (27.5% total with MFN auto tariffs) on UK imported automobiles to a 10% rate, applied to a quota of 100,000 vehicles** (the UK exported 101,000 vehicles to the US in 2024). The two sides also agreed to negotiate an alternative arrangement to the Section 232 tariffs on **steel and aluminum**, with the UK touting in its press **release** that British exports of steel would face no duties to the United States (it is worth noting this achievement was not cited in the White House’s press release). **Also not announced in the White House fact sheet was a claim by the UK government that they would receive “preferential treatment in any further tariffs” imposed as a part of Section 232 investigations** – portending huge consequences for ongoing investigations into pharmaceuticals, semiconductors, copper, critical minerals, lumber, and truck products.

Additional commitments announced included:

- Commerce Secretary Howard Lutnick **announced** during the Oval Office press conference that a **UK airline would buy \$10 billion in Boeing airplanes**, and that Rolls-Royce engines and plane parts destined for Boeing would be “tariff-free” on entry to the US.
- Prime Minister Starmer stated that **the UK would open its market to American beef, poultry, ethanol, soft drinks, and cereal products, among other imports – representing a “\$5 billion opportunity”** for US farmers, ranchers, and producers, according to the White House. The White House anticipated that the UK’s commitments to open such sectors would result in more than \$700 million in ethanol exports and over \$250 million for agricultural exports.
- **President Trump also stated that the UK would “fast-track” American-made goods through British customs** and secure supply chains for UK-sourced aerospace components and pharmaceutical products.

TIMELINE AND CONTEXT

The UK wins the prize as the first country to reach a deal with the White House since the “Liberation Day” pause was announced on April 9, in part due to close bilateral ties, complementary market dynamics, and a foundation of previous trade negotiations.

The US ran a goods trade surplus with the UK in 2024, totaling \$11.9 billion – thus subjecting the UK to the lowest possible reciprocal tariff at the global baseline of 10%. The UK, which stands as the US’s ninth-largest trading partner, **exports** a relatively small proportion of total US steel and aluminum imports, with 240,000 metric tons of steel and 219,000 metric tons of aluminum last year. In 2022, the US and UK **agreed**

under Section 232 authorities to replace 25% duties on steel and aluminum with a Tariff Rate Quota (TRQ) for 500,000 metric tons after heavily negotiating on the issue since the first Trump administration. Under this background, circumstances for a US-UK deal were comparatively ripe.

Further, interest in a US-UK trade deal has long been a goal of President Trump – the US and UK held five rounds of negotiations starting in 2020 before they were suspended by President Biden. For his part, Prime Minister Starmer, who has been reluctant to publicly criticize Trump, will be able to present a major win at home as he struggles to maintain popularity. Days earlier, Starmer facilitated the signing of a UK-India Free Trade Deal.

IMPLICATIONS FOR TRADING PARTNERS

Trading partners are paying close attention to the terms reached between the US and UK to understand if a similar playbook can be deployed in their own negotiations with President Trump. The US-UK Economic Prosperity Deal is being especially closely watched in the European Union, whose trade talks with the US to date have yielded little progress. The EU is currently warning of potential retaliatory duties impacting up to \$100 billion of US exports.

President Trump said that this deal will not be a “template” for other countries to follow, but the substance of the deal reveals several key factors that the White House is likely weighing as it communicates with other trading partners:

- **Room to Adjust Critical Sectoral Tariffs:** Although previously described as “off the table” by White House advisers, favorable treatment for the UK under “alternative arrangements” for Section 232 tariffs on steel and aluminum as well as automobiles suggest that tariffs in place, or contemplated for strategic manufacturing sectors, may be up for negotiation. The success of the UK in reaching a negotiated tariff rate for these categories may embolden other countries like Japan and South Korea, who are particularly impacted by the Section 232 rates on steel and aluminum and automobiles, to seek similar agreements.
- **Tariffs and Purchase Commitments Remain Top Priorities:** The \$5 billion market opportunity in the UK addresses priority sectors for US exports, such as agriculture and energy, which have been viewed as strategic by the White House from an economic security standpoint. This may have implications for upcoming negotiations with China, which failed to live up to what were principally agricultural product purchase commitments under its Phase One Agreement.
- **Global Baseline to Remain in Place:** The UK's 10% global baseline tariff was not removed, which President Trump said will be the floor for trading partners in upcoming negotiations. “Some will be much higher because they have massive trade surpluses and in many cases they didn’t treat us right,” Trump told reporters.
- **Digital Service Tax Relief Not Present:** Despite earlier reports indicating that a revision of the UK DST impacting US tech giants may be on the table, adjustments to the UK DST regime were not announced in the US-UK trade framework. White House adviser Peter Navarro later said that DSTs are “still in negotiation.” Changes to DST arrangements remain a major priority of the US in negotiations with EU partners, with Navarro calling them a “very big deal to President Trump.”

The announcement follows increasing domestic political pressure on the White House to announce deals, and the Dow rose 250 points today on a positive response to the news. After announcing the deal, President Trump called it the first of many deals to be signed, while UK Ambassador Peter Mandelson stated the agreement is “just the beginning” of steps that will be taken to reduce trade barriers between the two countries. As more trading partners come to the table to secure tariff reductions, **the US-UK Economic Prosperity Deal signals that the White House may be more flexible than anticipated on adjusting sectoral tariffs and that market access arrangements with partners are possible even as some details remain unclear.**