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Brexit: Status and Outlook

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SUMMARY

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Brexit: Status and Outlook

After the 2016 referendum in which 52% of voters in the United Kingdom (UK) favored leaving the European Union (EU), *Brexit* was originally scheduled to occur on March 29, 2019. In early 2019, however, Parliament repeatedly rejected the withdrawal agreement negotiated between Prime Minister Theresa May's government and the EU without supporting any alternative. In April 2019, the EU granted the UK an extension until October 31, 2019.

Recent Developments and Possible Scenarios

After becoming Prime Minister in July 2019, Boris Johnson asserted that Brexit will take place on October 31 and that he will not request another extension. Johnson declared his intention to renegotiate a new agreement with the EU that drops the Northern Ireland *backstop* provision, which would keep the UK in the EU customs union until the two sides agreed on their future trade relationship. The backstop provision was included in the rejected withdrawal agreement as an insurance policy to maintain an open border between Northern Ireland (part of the UK) and the Republic of Ireland (an EU member state) while safeguarding the rules of the EU single market. The backstop was a main reason many Members of Parliament voted against the deal.

The UK and EU have sought to avoid a *no-deal Brexit*, a scenario in which the UK leaves the EU without a negotiated withdrawal agreement, due to concerns that it could cause considerable disruption with regard to the economy, trade, security, Northern Ireland, and other issues. In September 2019, Parliament passed legislation requiring the UK government to request another extension by October 19 if it has not reached a withdrawal agreement with the EU.

The dynamics of Brexit are likely to evolve in relation to pivotal events and deadlines in October 2019. Possible scenarios include a new withdrawal agreement, another extension, a no-deal Brexit, and an early general election in the UK.

Brexit, Trade, and Economic Impact

The various Brexit scenarios have considerable implications for the UK's trade arrangements. Outside the EU customs union, the UK would regain an independent national trade policy, a major selling point for many Brexit supporters who advocate negotiating new bilateral trade deals around the world, including with the United States. The UK likely would seek to negotiate a free trade agreement (FTA) with the EU. A Brexit in which the UK remains a member of the EU single market or customs union would provide more barrier-free access to the EU, but the UK would have to follow most EU rules without having a say in how they are made. Analysts predict that the disruption resulting from any form of Brexit likely will have at least a short-term negative economic impact on the UK. A no-deal Brexit represents the most disruptive and unpredictable scenario, and many businesses in the UK are taking steps to mitigate potential economic losses.

Northern Ireland

Many observers have expressed concerns that Brexit could destabilize the Northern Ireland peace process and lead to a *hard border* with physical infrastructure and customs checks between Northern Ireland and the Republic of Ireland. Although conditions have improved considerably since the 1998 peace accord (known as the Good Friday Agreement or the Belfast Agreement), concerns about the fragility of peace and security in Northern Ireland remain. A Brexit that results in a hard border likely would have negative economic effects for Northern Ireland and constitute a pressure point in the continuing implementation of the peace agreement.

U.S.-UK Relations and Congressional Interest

President Trump and Administration officials have expressed support for Brexit. Members of Congress hold mixed views. The UK likely will remain a leading U.S. partner in addressing many foreign policy and security challenges, but Brexit has fueled a debate about whether the UK's global role and influence is likely to be enhanced or diminished. In 2018, the Administration notified Congress of its intention to negotiate a bilateral FTA with the UK after Brexit. Congress would likely need to pass implementing legislation before the potential FTA could enter into force. Many in Congress also are concerned about Brexit's possible implications for Northern Ireland's peace process and economy.

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Introduction and Issues for Congress

The United Kingdom's (UK's) pending exit from the European Union (EU), commonly termed *Brexit*, remains the overwhelmingly predominant issue in UK politics. UK voters favored leaving the EU by 52% to 48% in a public referendum in June 2016. The UK officially notified the EU of its intention to leave the bloc in March 2017, and the UK and the EU began negotiations on the terms of the UK's withdrawal.[1] Brexit was originally scheduled to occur on March 29, 2019, but the UK Parliament has been unable to agree on a way forward due to divisions over what type of Brexit the UK should pursue and challenges related to the future of the border between Northern Ireland (part of the UK) and the Republic of Ireland (an EU member state). In early 2019, Parliament repeatedly rejected the withdrawal agreement negotiated between Prime Minister Theresa May's government and the EU, while also indicating opposition to a *no-deal* scenario, in which the UK would exit the EU without a negotiated withdrawal agreement. Amid this impasse, in April 2019, EU leaders agreed to grant the UK an extension until October 31, 2019.[2] Given ongoing negotiations between the UK and the EU, and a series of pivotal events and deadlines in October 2019, conditions surrounding the status and outlook of Brexit continue to evolve.

Many Members of Congress have a broad interest in Brexit. Brexit-related developments are likely to have implications for the global economy, U.S.-UK and U.S.-EU political and economic relations, and transatlantic cooperation on foreign policy and security issues. In 2018, the Administration notified Congress of its intent to launch U.S.-UK trade agreement negotiations after the UK leaves the EU, and Congress may consider how Brexit developments affect the prospects for an agreement.[3] Congress would likely need to pass legislation to implement the potential free trade agreement (FTA) before it could enter into force, particularly if it were a comprehensive FTA. Some Members of Congress also have demonstrated an interest in how Brexit might affect Northern Ireland.[4] In April 2019, House Speaker Nancy Pelosi said there would be "no chance whatsoever" for a U.S.-UK trade agreement if Brexit were to weaken the Northern Ireland peace process.[5] Other Members of Congress, including Senate Finance Committee Chairman Chuck Grassley, have expressed support for the UK and a bilateral trade agreement regardless of how Brexit occurs.[6]

Brexit Status Overview and Update

Unable to break the stalemate over Brexit in Parliament, Prime Minister Theresa May resigned as leader of the Conservative Party on June 7, 2019. On July 24, 2019, Boris Johnson became prime minister of the UK after winning the resulting Conservative Party leadership contest.[7] Seen as a

[1] The United Kingdom (UK) notified the European Union (EU) by formally invoking Article 50 of the Treaty on European Union, the legal mechanism under which a member state may withdraw from the EU.

[2] European Council, *European Council Decision Taken in Agreement with the United Kingdom Extending the Period under Article 50(3)TEU*, April 11, 2019.

[3] Office of the United States Trade Representative, "Trump Administration Announces Intent to Negotiate Trade Agreements with Japan, the European Union and the United Kingdom," October 16, 2018. Also see CRS Report R44817, *U.S.-UK Free Trade Agreement: Prospects and Issues for Congress*, by Shayerah Ilias Akhtar.

[4] See CRS Report RS21333, *Northern Ireland: Current Issues and Ongoing Challenges in the Peace Process*, by Kristin Archick.

[5] Simon Carswell, "Pelosi Warns No US-UK Trade Deal if Belfast Agreement Weakened by Brexit," *Irish Times*, April 15, 2019.

[6] Senator Chuck Grassley, "Grassley Joins Colleagues in Letter Pledging to Back Britain After Brexit," August 6, 2019.

[7] Catherine Haddon and Lee Wratten, *Conservative Party Leadership Contests – How Do They Work?*, Institute for

colorful and polarizing figure who was one of the leading voices in the campaign for the UK to leave the EU, Johnson previously served as UK foreign secretary in the May government from 2016 to 2018 and mayor of London from 2008 to 2016. He inherited a government in which, at the time, the Conservative Party held a one-seat parliamentary majority by virtue of support from the Democratic Unionist Party (DUP), the largest unionist party in Northern Ireland, which strongly supports Northern Ireland's continued integration as part of the UK.

Immediately after taking office, Prime Minister Johnson asserted that the UK would leave the EU on October 31, 2019, "no ifs or buts."[8] He also announced that he intended to negotiate a new deal with the EU that discards the Northern Ireland *backstop* provision that would keep the UK in the EU customs union until the two sides agreed on their future trade relationship.[9] The backstop was intended to prevent a *hard border* with customs and security checks on the island of Ireland and to ensure that Brexit would not compromise the rules of the EU single market (see **Appendix A**, which reviews the backstop and the rejected withdrawal deal). Although Prime Minister Johnson asserts that he does not desire a hard land border, he strongly opposes the backstop arrangement, viewing it as potentially curbing the UK's sovereignty and limiting its ability to conclude free trade deals. With the EU responding that any new negotiations must be based on the existing draft withdrawal agreement, including the backstop provision, the Johnson government began to ramp up preparations for a possible no-deal Brexit.[10]

In late August 2019, the Johnson government received formal permission from the Queen to suspend, or *prorogue*, Parliament from September 10 through October 14. Parliament normally is prorogued for a short period each year, during which time most bills that have not completed passage are terminated and must be reintroduced in the next session. (New governments also typically prorogue Parliament in order to present a Queen's Speech that sets out their policy program.) At the time of the 2019 prorogue, Parliament had been in session since June 2017, largely to deal with Brexit-related legislation.[11] Johnson's timeline extended a planned recess during which party conferences were scheduled to occur, eliminating up to seven parliamentary working days.[12] Critics argued that the move was undemocratic and timed to limit Parliament's ability to block a potential no-deal Brexit.

During the final week of the session, Parliament passed legislation requiring the government to request another Brexit deadline extension from the EU by October 19, 2019, unless the government has reached an agreement with the EU that Parliament has approved or received Parliament's approval to leave the EU without a withdrawal agreement. The extension would last through January 31, 2020. The request for the extension could be canceled if one of the law's provisions were to be fulfilled by October 30.[13] The EU's other 27 member states would have to approve any additional Brexit extension.

The government also lost its parliamentary majority in the first week of September 2019, with the defection of one Conservative Member of Parliament (MP) to the Liberal Democrats and the expulsion from the party of 21 Conservative MPs who worked with the opposition parties to limit

Government, May 24, 2019.

[8] Prime Minister's Office, *Boris Johnson's First Speech as Prime Minister: 24 July 2019*, July 24, 2019.

[9] See footnote 8.

[10] See David Klemperer, *No Deal Brexit Preparations*, Institute for Government, August 1, 2019. Also see Department for Exiting the European Union, *UK Government's Preparations for a No Deal Scenario*, December 21, 2018.

[11] Edward Hicks, *Is This the Longest Parliamentary Session Ever?*, UK House of Commons Library, May 10, 2019.

[12] "Prorogation: How Can the Government Suspend Parliament?," BBC News, September 16, 2019.

[13] See European Union (Withdrawal) (No. 2) Act 2019, http://www.legislation.gov.uk/ukpga/2019/26/contents/enacted.

the government's ability to pursue a no-deal Brexit (see **Table 1** for the current party composition in the House of Commons). Prime Minister Johnson subsequently sought to trigger an early general election, to take place before the October 31 Brexit deadline, but fell short of the needed two-thirds majority in Parliament to support the motion.[14]

British politics experienced further turmoil on September 24, 2019, when the UK Supreme Court ruled that Prime Minister Johnson's proroguing of Parliament was unlawful and "without reasonable justification."[15] The court's unanimous decision nullified the suspension of Parliament, and Parliament reconvened the following day.

Table 1. Current Party Composition of the House of Commons

Party	# of Seats
Conservative Party	288
Labour Party	247
Scottish National Party	35
Independents	34
Liberal Democrats	18
Democratic Unionist Party (N. Ireland)	10
Sinn Féin (N. Ireland)	7
The Independent Group for Change	5
Plaid Cymru (Wales)	4
Green Party	1
Speaker	1
Total	650

Source: UK Parliament website, *Current State of the Parties*, accessed September 26, 2019.

Possible Outcomes

Following early September's tumultuous events, several broad scenarios remain in play. Possibilities include a new withdrawal agreement, another extension, a no-deal Brexit, and an early general election.

Renegotiating the Deal

Although some commentators have argued that Boris Johnson's highest priority is to spark a general election that returns him as prime minister, Johnson himself has repeatedly expressed confidence in his ability to negotiate a new withdrawal agreement with the EU in time for the agreement to be approved during the European Council summit on October 17-18, 2019.[16] EU

[14] See Fixed-Term Parliaments Act 2011, http://www.legislation.gov.uk/ukpga/2011/14/contents.

[15] "Supreme Court: Suspending Parliament Was Unlawful, Judges Rule," BBC News, September 24, 2019.

[16] "'I'll Go to Brussels, I'll Get a Deal': Boris Johnson Confident of Brexit on October 31 if There's No General Election," ITV, September 6, 2019.

leaders have expressed skepticism that a new agreement can be reached before the European Council summit or the October 31 deadline.[17]

Johnson's approach centers on removing the backstop from the original draft agreement. On October 2, 2019, he sent a proposal to European Commission President Jean-Claude Juncker that included the following elements:[18]

- An all-island regulatory zone on the island of Ireland, eliminating the need for regulatory checks on trade in goods between Northern Ireland and Ireland.
- The consent of the Northern Ireland Executive and Assembly before the all-island regulatory zone can come into force, and every four years afterwards.
- At the end of the transition period (the end of 2020), the entire UK, including Northern Ireland, will leave the EU customs union and conduct its own national trade policy.
- Any physical checks necessary to ensure customs compliance are to be conducted at locations away from the border, with no checks or infrastructure at the border.

Juncker welcomed Johnson's attempt to make progress toward a deal, but noted "some problematic points that will need further work."[19] Other EU leaders were more critical of the proposal, including Irish Prime Minister Leo Varadkar, who reacted that it "falls short in a number of aspects."[20]

The EU had proposed a Northern Ireland-only backstop during the original withdrawal agreement negotiations. However, the backstop provision was ultimately extended to the entire UK after Prime Minister May backed the DUP's adamant rejection of a Northern Ireland-only provision, which the DUP contended would create a regulatory barrier in the Irish Sea between Northern Ireland and the rest of the UK and thus would threaten the UK's constitutional integrity.[21] The DUP remains wary of any solution that could essentially divide Northern Ireland from the rest of the UK, but the DUP has voiced support for Prime Minister Johnson's October 2 Brexit proposal. Press reports indicate that the DUP is willing to accept Johnson's proposed "all-island regulatory zone" given that it also would require the approval of Northern Ireland's devolved political institutions.[22]

Another Brexit Deadline Extension

As noted above, UK law requires the government to request another extension from the EU by October 19, 2019, unless the UK and EU have reached a new withdrawal agreement and Parliament has approved that agreement or the UK government has received Parliament's approval to leave the EU without a withdrawal agreement.

Prime Minister Johnson has pursued a "do or die" political strategy for achieving Brexit by the end of October, however, asserting that he would rather be "dead in a ditch" than request another

[17] Daniel Boffey, "Boris Johnson 'Surprised' by Level of Irish Border Checks," *Guardian*, September 18, 2019.

[18] Office of the Prime Minister, *UK Proposals for a New Protocol on Ireland/Northern Ireland*, October 2, 2019.

[19] European Commission, *Statement by the European Commission Following President Jean-Claude Junker's Phone Call With Prime Minister Boris Johnson*, October 2, 2019.

[20] David Hughes and Sam Blewett, "Ireland's Varadkar Says Johnson's Brexit Plan 'Falls Short,'" *Belfast Telegraph*, October 3, 2019.

[21] See Office of the Prime Minister, *Commitments to Northern Ireland*, December 8, 2017.

[22] Lisa O'Carroll, "Arlene Foster Signals DUP Shift on Northern Ireland Border Issue," *Guardian*, September 18, 2019; "Brexit: DUP Endorses Johnson's Offer to European Union," BBC News, October 2, 2019.

extension from the EU.[23] Although government ministers have stated that the government will follow the law, commentators have speculated that the government might seek loopholes in the law's implementation, challenge the interpretation of the law, or use tactics to avoid Johnson personally requesting the extension.[24] (One idea is that the letter requesting an extension be accompanied by a second letter asking the EU to ignore the request.)

Other scenarios are that Johnson could resign as prime minister rather than request an extension or be defeated in a parliamentary vote of no confidence. Parliament might subsequently install a temporary caretaker government that would call for an early election after securing a Brexit extension.

An extension requires the approval of the 27 other EU member states. Although EU leaders have expressed mounting frustration with the UK and the Brexit process, they likely would approve another extension, "provided it is justified and has a specific purpose, such as avoiding a 'no-deal' departure, holding general elections or a referendum, revoking Article 50, or approving the Withdrawal Agreement."[25] (Article 50 of the Treaty on European Union is the legal mechanism under which a member state may withdraw from the EU.)

No-Deal Brexit

A no-deal Brexit, a scenario in which the UK exits the EU without a negotiated withdrawal agreement, remains a possibility (if the UK government were to not request or receive an extension; or if no withdrawal agreement were reached by the deadline of a further extension). Both UK and EU negotiators have consistently rejected a no-deal scenario, although both sides have been developing contingency plans for such an outcome.

Assessments of the full impact of a no-deal scenario remain subject to many uncertainties. Many observers maintain that a no-deal Brexit could cause considerable disruption, with negative effects on the economy, trade, security, Northern Ireland, and other issues.[26] In September 2019, a parliamentary motion forced the government to publish a secret document outlining its planning assumptions for a no-deal Brexit. Among other possibilities, the government document discusses border delays for travelers and transport services; a potential decrease in the availability of certain types of fresh food; price increases for food, fuel, and electricity; disruption in the supply of medicines and medical supplies; and a potential rise in public disorder and community tensions.[27]

Government officials stressed that the document represents "reasonable worst case planning assumptions" rather than a base scenario. Brexit advocates maintain that fears over a no-deal Brexit are exaggerated, and some ardent Brexit supporters argue that a no-deal Brexit would be preferable

[23] Charlie Cooper, "Boris Johnson Would Rather Be 'Dead in a Ditch' Than Delay Brexit," *politico.eu*, September 5, 2019.

[24] "Brexit Extension: PM to 'Test Law to Limit' to Avoid Delay," BBC News, September 8, 2019 and John Paul Ging, "UK PM Likely to Attempt 'Fudge' to Get Around Brexit Extension - Former Tory Strategist," *euronews*, September 9, 2019.

[25] European Parliament, *Brexit: New European Parliament Reaffirms Wholehearted Support for EU Position*, September 18, 2019.

[26] See The UK in a Changing Europe, *No Deal Brexit: Issues, Impacts, Implications*, September 4, 2019.

[27] Cabinet Office, *Government Response to Humble Address Motion*, September 11, 2019, at https://www.gov.uk/government/publications/government-response-to-humble-address-motion.

to either May's deal or a *soft Brexit* in which the UK would retain certain ties and obligations to the EU.[28]

Some analysts argue that there is no such thing as a clean break with the EU. Even in a no-deal Brexit scenario, the UK would likely immediately find itself continuing negotiations with the EU in pursuit of mini-deals seeking to mitigate disruption. The EU, however, might insist the UK agree to many of the terms of the earlier draft withdrawal agreement as the price of securing such deals and establishing a framework for the long-term UK-EU relationship.[29]

Early General Election

Most observers agree that an early general election in the UK is likely to occur before the end of 2019. A general election that produces a clear outcome could serve to break the political deadlock and provide a new mandate for the winner to pursue Brexit plans.

A snap election in the UK could be triggered by two-thirds of MPs (434 out of 650) backing a motion for an early general election.[30] Prime Minister Johnson attempted to pass such a motion before proroguing Parliament in early September. At the time, he aimed to hold the election in mid-October with the goal of restoring the Conservatives' parliamentary majority and achieving a public mandate for his approach to Brexit, but the motion fell well short, receiving 298 votes. Opposition parties abstained or voted against it on the basis that they did not wish to risk an early election with a no-deal Brexit remaining on the table. Opposition leaders indicated they would be inclined to back calling an early election after a Brexit extension has been secured.

Alternately, the government could also attempt to pass a law (requiring a simple majority) calling for an early election, notwithstanding the requirements of current legislation. An election also would take place if no new government could be formed within 14 days of the government losing a vote of confidence.

An election carries significant risks for all of the UK's political parties, as the outcome and composition of the resulting Parliament would be highly uncertain. A September 18 poll showed support for the Conservative Party at 32%, for the Liberal Democrats (led by Jo Swinson) at 23%, for the Labour Party (led by Jeremy Corbyn) at 21%, and for the new, single-issue Brexit Party (led by Nigel Farage) at 14%.[31] Projections must take into account the UK's "first-past-the-post" electoral system (similar to U.S. congressional elections), in which candidates compete for a "winner takes all" plurality in 650 constituencies. A party's percentage of overall nationwide votes does not therefore match the percentage of seats it may win in Parliament.

Johnson would be expected to lead the Conservative campaign based on leaving the EU immediately, implementing post-exit arrangements, and negotiating trade deals with the United States and the EU. Opposition parties might campaign on holding a second Brexit referendum or a referendum on the withdrawal agreement, pursuing a soft Brexit with closer ties to the EU, or cancelling Brexit and remaining in the EU.

[28] "UK's Hammond attacks 'Terrifying' Views of Brexiteer Rees-Mogg," Reuters, July 17, 2019.

[29] John Springford, *How Would Negotiations After a No-Deal Brexit Play Out?*, Centre for European Reform, September 3, 2019.

[30] The UK's most recent general election took place in June 2017, and the next election must occur by May 5, 2022.

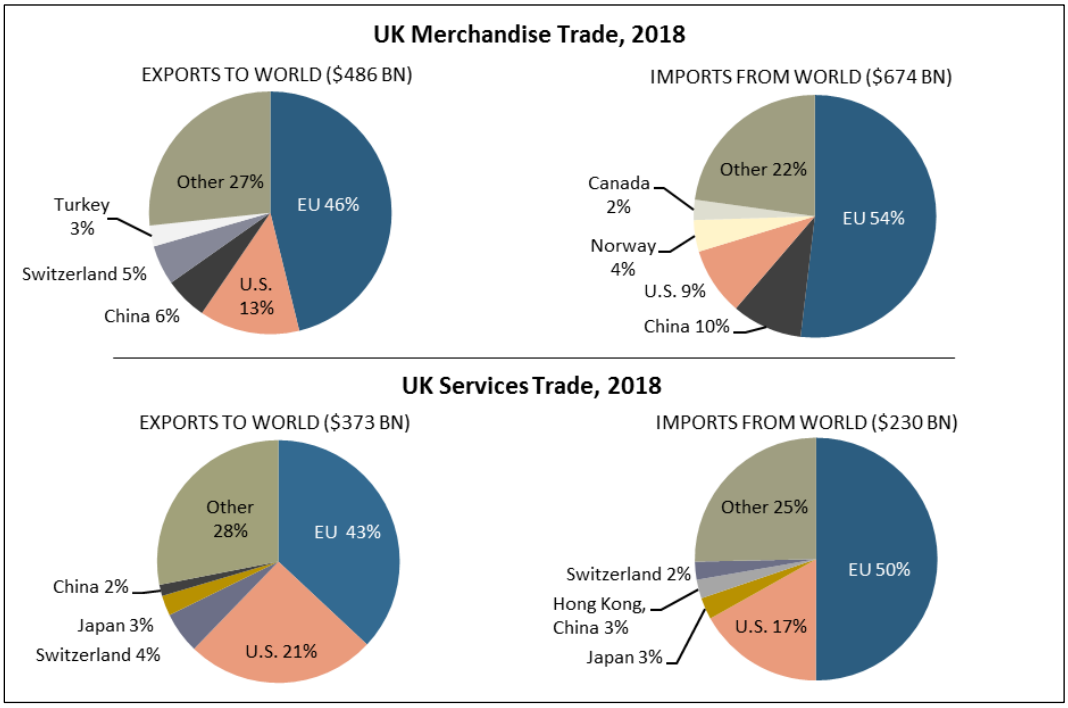
[31] YouGov, *Political trackers (17-18 Sept update)*, at https://yougov.co.uk/topics/politics/articles-reports/2019/09/19/political-trackers-17-18-sept-update.

Brexit and Trade

Current UK-EU Trade Relationship

Brexit casts great uncertainty over the future UK-EU trade relationship. At 15% of the EU gross domestic product (GDP) in 2018, the UK is the EU's second-largest economy after Germany (21%). The EU, as a bloc, is the UK's largest trading partner (see **Figure 1**). While UK trade with other countries, such as China, has risen in recent years, the EU remains the UK's most consequential trading partner.[32] UK-EU trade is highly integrated through supply chains and trade in services, as well as through foreign affiliate activity of U.S. and UK multinational companies. Within the EU, the largest goods and services trading partners for the UK are Germany, the Netherlands, France, Ireland, and Spain.[33] (See **Implications for U.S.-UK Relations** section for discussion of U.S.-UK trade.)

Figure 1. UK World Trade



Source: Congressional Research Service, (CRS), based on data from the World Trade Organization (WTO), *Trade Profiles 2019*.

Presently, the UK's trade policy is determined by the EU, which has exclusive competence for trade policy for EU member states. The UK, as an EU member, is in the EU customs union; this makes trade in goods between the UK and other EU member tariff-free, and binds the UK to the EU's common external tariff, which the UK and other EU member states apply to goods imported from outside the customs union.

[32] Matthew Ward, *Geographical Pattern of UK Trade*, UK House of Commons Library, August 16, 2019. Hereinafter, Ward, *Geographical Pattern of UK Trade*.

[33] Ward, *Geographical Pattern of UK Trade*.

The UK also is a part of over 40 preferential trade agreements that the EU has with about 70 countries, as well as part of ongoing EU trade negotiations.[34] Thus, until Brexit occurs, the UK is a part of the new trade negotiations between the EU and the United States.[35]

The UK also is part of the EU single market. In addition to providing for the free movement of goods, the single market provides for free movement of services, capital, and people, and is underpinned by common rules, regulations, and standards that aim to reduce and eliminate nontariff barriers. Such barriers may stem, for instance, from diverging or duplicative production standards, labeling rules, and licensing requirements. Goods move freely in the single market, tariff-free, and generally are not subject to customs procedures.

A product imported into the UK currently faces the common external tariff; once inside the UK, the product does not face additional tariffs regardless of its origin if exported to another EU member state. The single market provides businesses inside the EU with the ability to sell goods and services across the EU more freely. The single market is more developed for goods than for services, but it still offers some significant market access for services. For instance, under the single market, banks and other financial services firms that are established and authorized in the UK can apply for the right to provide certain defined services throughout the EU or to open branches in other countries with relatively few additional requirements (known as *passporting rights*). Among other things, UK professionals also can move freely in the EU, benefitting from mutual recognition of professional qualifications across EU member states.

Scenarios for UK-EU Trade Relationship Post-Brexit

Potential outcomes for the post-Brexit UK-EU trade relationship vary in their level of single market access, obligations to implement EU rules and regulations, opportunity to participate in EU decisionmaking, requirements to contribute to the EU's budget, and political feasibility.

No Customs Union?

If the UK is no longer part of the EU customs union, it would regain control over its national trade policy and be free to negotiate its own free trade agreements (FTAs) with other countries. This has been a key rationale for many Brexit supporters.

Several scenarios could lead to an outcome where the UK is not in the EU customs union. One such scenario is a no-deal Brexit, under which the UK would no longer have preferential access to the EU market and World Trade

United Kingdom, European Union, and the World Trade Organization

The United Kingdom (UK) is a founding member of the World Trade Organization (WTO), and it is a WTO member both on an individual basis and as a member of the European Union (EU). However, the UK does not have its own schedule of commitments in the WTO; rather, its commitments to other WTO members presently are through the EU's schedule of commitments. The *schedule of commitments* refers to the commitments that WTO members make to all other WTO members on the nondiscriminatory market access (i.e., "most-favored-nation," or MFN, access) they will provide for trade in goods, services, agriculture, and government procurement. These commitments govern trading relationships among WTO members unless they have preferential trading arrangements. WTO terms of trade for the UK and, to some extent, the EU would have to be renegotiated as a result of Brexit (see "Global Britain" section for further discussion).

[34] European Commission, "Overview of FTA and Other Trade Negotiations," updated July 2019, https://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf.

[35] CRS In Focus IF11209, *Proposed U.S.-EU Trade Agreement Negotiations*, by Shayerah Ilias Akhtar, Andres B. Schwarzenberg, and Renée Johnson.

Organization (WTO) terms would govern the UK-EU trade relationship (see **text box**).[36] In a no-deal Brexit, trade between the UK and the EU would no longer be tariff-free, and nontariff barriers such as new customs procedures also would arise, adding costs to doing business.

Other examples of arrangements that preclude a customs union are the trade relationships that Norway and Switzerland have with the EU. Norway and Switzerland are non-EU countries that are not in the customs union, but have tariff-free access to the EU (with some exclusions, such as agriculture and fisheries for Norway and some services for Switzerland). Norway and Switzerland have no say on EU decisions on rules and regulations and must accept free movement of workers. They must also pay in to the EU budget. Norway's access to the EU market is through its membership in the European Economic Area (EEA). Switzerland (not in the EEA) has more complicated access through over 100 sectoral agreements with the EU. The government of former UK Prime Minister May essentially rejected a Norway- or Switzerland-style model for Brexit because the UK did not want to accept EU rules and regulations, especially without having a say in EU decisionmaking.

Customs Union?

Alternatively, the UK could remain in the EU customs union or develop another customs arrangement with the EU. To do so, however, means that the UK would not regain control over its trade policy. This could occur if a UK-EU deal keeps the UK in the customs union permanently or during an extended transition period.

Turkey is an example of a non-EU country in a customs union relationship with the EU. Like Norway and Switzerland, Turkey has no voice on EU decisions; unlike Norway and Switzerland, Turkey does not contribute to the EU budget. Turkey-EU trade is tariff-free on covered products (most goods and processed agricultural products). Turkey has adopted the EU common external tariff and must apply tariff reductions that the EU negotiates with other countries. Preferential access that the EU gains to these other countries, however, does not automatically apply to Turkey, which would need to negotiate its own agreements with these other countries.

If the UK were to participate in the customs union, it potentially could negotiate with other countries on areas outside the scope of the customs union (e.g., services, digital trade, public procurement, intellectual property, and regulatory cooperation). However, to the extent that a customs union represents a desire for the UK to keep its trade with the EU as frictionless as possible, the UK may not wish to depart from EU regulatory and other approaches and risk introducing nontariff barriers. This stance would limit the UK's negotiating flexibility in trade negotiations with countries outside of the EU. Additionally, the EU may be unwilling to agree to a customs union arrangement without seeking regulatory commitments in order to maintain a level playing field. A customs union also could limit UK trade policy, such as by applying trade remedies or developing country preference programs.

Free Trade Agreement?

A third possibility is that the UK and the EU could conclude a trade agreement, as envisioned in the political declaration attached to the original withdrawal agreement. If the UK exits the EU without a deal, it also may seek to negotiate a trade agreement in the future. No UK trade agreement with the EU likely would be able to replicate existing single market access. For instance, the EU bilateral

[36] The most-favored-nation (MFN) tariff is the normal nondiscriminatory tariff that a World Trade Organization (WTO) member charges on imports from another WTO member, excluding preferential tariffs under FTAs and other schemes or tariffs charged inside quotas.

FTAs with Canada and Japan eliminate most tariffs but have a number of exceptions, such as in services. Negotiations could be lengthy; EU negotiations with Canada and Japan took, respectively, seven and four years. EU FTAs have varied in their scope of trade liberalization and rules-setting. The EU has said that the UK cannot have a better trade relationship with the EU outside of the single market than within it.

Impact on UK Trade and Economy

The precise impact of Brexit on UK trade with the EU and the economy would depend on what form Brexit takes. Nevertheless, in most scenarios, Brexit would raise the costs of UK trade with the EU through higher tariffs and nontariff barriers.[37] Costs may be greater in the short term, until commercial disruptions are smoothed out. If the UK exits the EU without a deal, costs may be mitigated to some degree if the two sides subsequently negotiate an interim deal or a free trade agreement, although this may take years. New trade deals signed by the UK with countries outside of the EU could boost economic growth, but they may not be by enough to offset the loss of the UK's membership in the EU single market. Some of the higher costs of commerce may be passed to consumers.

As noted earlier, WTO terms would govern UK-EU trade in a no-deal Brexit. EU average most-favored-nation (MFN) tariff rates are low (around 5%) but significantly higher for certain products. Because of the tight linkages in UK-EU trade, higher tariffs would raise the costs of trade not only for final goods but also for intermediate goods traded between UK and EU member states as part of production and supply chains. UK sectors that may be particularly affected by increased tariffs include agriculture and manufacturing sectors (processed food products, apparel, leather products, and motor vehicles).[38]

UK importers may face higher costs, as the UK may impose its own MFN-level tariffs on imports from the EU. Presently, the UK government is considering a tariff regime where the majority (87%) of total imports into the UK by value would be eligible for tariff-free access for 12 months while the UK aims to negotiate a new tariff regime with the EU. However, tariffs would remain on other goods imported to the UK, including some meat and dairy, vehicles, ceramics, and fertilizers, in an effort to support farmers and manufacturers.[39]

Should the UK and EU negotiate a preferential trading arrangement, it likely would not lead to an elimination of all tariffs. In addition, exporters on both sides would have to certify the origin of their traded goods in order to satisfy "rules of origin" to receive the preferential market access.[40]

Nontariff barriers to trade also would arise with Brexit. The UK would become a "third country" from the EU's perspective, and the UK's regulatory frameworks—although currently aligned with those of the EU—would no longer be recognized by the EU. The EU would have to make

[37] For instance, one study estimates that a loss of preferential access to the EU market in a no-deal Brexit would result in UK export losses of at least $16 billion (about 7% of UK exports to the EU currently) due to an increase in tariffs on UK exports to the EU. Actual losses would be "much greater because of nontariff measures, border controls, and disruption of existing UK-EU production networks." Pamela Coke Hamilton and Alessandro Nicita, "The Trade Cost of a No-Deal Brexit to the United Kingdom," United Nations Conference on Trade and Development, September 3, 2019. Hereinafter, Hamilton and Nicita, "Trade Cost of a No-Deal Brexit."

[38] Hamilton and Nicita, "Trade Cost of a No-Deal Brexit."

[39] UK Government, "Temporary Tariff Regime for No Deal Brexit Published," March 13, 2019; and Jim Pickard and George Parker, "Ministers to Overhaul Planned Tariff Plan for No-Deal Brexit," *Financial Times* September 17, 2019.

[40] Rules of origin are laws, regulations, and procedures for determining the nationality of imported products. See CRS In Focus IF10754, *Rules of Origin*, by Vivian C. Jones.

determinations on whether measures of the UK comply with the corresponding EU regulatory framework. The UK has issued plans to maintain regulatory alignment with the EU post-Brexit until the UK can negotiate an agreement with the EU on future trade relations.

New administrative and customs procedures would apply to UK-EU trade. UK trade with the EU could face new licensing requirements, testing requirements, customs controls, and marketing authorizations. For instance, by some estimates, delays caused by customs checks of trucks from the EU could cause a 17-mile queue at the Port of Dover.[41] Such potential backlogs have raised concerns about spoiling or shortage of foods and medicines and complications for industries that depend on "just-in-time" productions such as autos.

Many businesses in the UK are preparing for Brexit, including a no-deal scenario, through such measures as stockpiling inventories, adjusting contract terms, restructuring operations, and shifting assets abroad. Some companies, particularly smaller companies, may not be as equipped as their larger competitors to deal with the transition. Other companies are waiting to see how Brexit unfolds.

Economic Impact of Brexit

In 2016, after the Brexit referendum, the British pound fell to a record low and concerns emerged about widespread harm to the UK economy. Doomsday fears may have abated, but prolonged uncertainty over Brexit appears to be a drag on the UK economy. In 2018, the UK economy saw its lowest annual growth rate (1.4%) since 2012. Surveys of businesses indicate that the uncertainty over Brexit has caused them to scale back investments, which, in turn, has affected their productivity.

Various studies have sought to estimate Brexit's impact on the UK economy. These studies use different methodologies and make different assumptions about Brexit outcomes. Estimates vary, but most studies project that the UK will be economically worse off due to Brexit, with the most negative consequences from a no-deal Brexit.

The Bank of England, in September 2019, estimated that the UK economy will shrink by 5.5% in a no-deal Brexit. In contrast, its November 2018 analysis predicted a decline of 8% for the UK economy if there is a no-deal Brexit. The changed assessment reflects ongoing UK government and business preparations for a possible no-deal Brexit. A softening global economy adds to downside risks of Brexit.

The Peterson Institute for International Economics analyzed 12 studies on the medium- to long-term impacts of Brexit. In most of the studies analyzed, the UK gross domestic product (GDP) loss from a *hard Brexit* (a return to World Trade Organization terms of trade) would range from 1.2% to 4.5%, whereas GDP loss from a *soft Brexit* (e.g., the "Norway model" of access to the EU single market in return for following most EU rules and laws) would be roughly half of the negative impact of a *hard Brexit*. Most of the studies analyzed also found that Brexit would be more harmful for the UK than the EU. Given its relatively larger size, the EU may be able to offset trade losses from Brexit through trade among the remaining the 27 member states, as well as trade with countries outside of the EU. One Peterson study examined additional factors and estimated that GDP in the UK would decline by 1.23% from a *soft Brexit* and 2.53% from a *hard Brexit*, whereas for the EU-27, GDP would decline by 0.16% from a *soft Brexit* and 0.35% from a *hard Brexit*.

Sources: Nicholas Bloom et al., *The Impact of Brexit on UK Firms*, Bank of England, Staff Working Paper, August 2019. Deloitte, "Deloitte CFO Survey: Political and Economic Uncertainty Compounds Brexit Fears," press release, July 8, 2019. Gemma Tetlow and Alex Stojanovic, *Understanding the Economic Impact of Brexit*, Institute for Government, November 2018. Letter from Mark Carney, Governor of the Bank of England, to John Mann, MP, Interim Chair of the Treasury Committee, Parliament, September 3, 2019. Valentina Romei, "Bank of England Trims Forecast of Pain in No Deal Scenario," *Financial Times*, September 4, 2019. Bank of England, *EU Withdrawal Scenarios and Monetary and Financial Stability*, November 2018. María C. Latorre et al., *Brexit: Everyone Loses, But Britain Loses the Most*, Peterson Institute for International Economics, Working Paper, March 2019.

[41] *What if There's No Brexit Deal?*, UK House of Commons Library, February 8, 2019.

Certain sectors of the UK economy may be particularly affected by Brexit.[42] Examples include the following:

- **Autos.** The EU is the UK's largest trading partner for motor vehicles, accounting for 43% of UK exports and 83% of UK imports in these products in 2018.[43] The EU accounts for the majority of UK trade in auto component parts and accessories. The UK automobile sector thrives on the sort of "just-in-time production" that depends on a free flow of trade in component parts, which are also significant in EU-UK trade.[44] In a no-deal scenario, UK auto exports to the EU would face a 10% tariff. Autos are a highly regulated industry, and UK and EU exporters would face new checks for safety and quality standards to obtain approval in the other's market.
- **Chemicals.** About 60% of UK chemicals exports are to the EU, and about 73% of UK chemicals imports are from the EU.[45] Chemicals trade in the single market is governed by a European Economic Area (EEA) regulatory framework known as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation).[46] Post-Brexit, UK chemicals exports to the EU could face tariffs of up to 6.5% in the absence of a preferential trade arrangement with the EU. Without a deal, UK chemicals registrations under REACH would become void with Brexit, and UK companies would have to transfer their registrations to an EEA-based subsidiary or representative to maintain market access. The UK also would need to set up its own regulatory regime for chemicals.[47]
- **Financial Services.** London is the largest financial center in Europe presently. Financial services and insurance make up about one-third of UK services exports to the EU.[48] The EU has made clear that the UK will no longer be able to benefit from financial passporting after Brexit. Absent alternative arrangements such as an equivalence decision by the EU, continued trade in financial services may require UK and EU businesses to restructure their operations.[49] U.S. and other banks are concerned about losing the ability to use their UK bases to access EU markets without establishing legally separate subsidiaries. Some financial institutions, such as Goldman Sachs, J.P. Morgan, Morgan Stanley, and Citigroup, have shifted (or are planning to shift) some jobs and assets from London to other European cities, such as Amsterdam, Dublin, Frankfurt, and Paris.[50] By one estimate, financial

[42] Oliver Wyman and Clifford Chance (consulting firms), *The "Red Tape" Cost of Brexit*, March 2018.

[43] Ward, *Geographical Pattern of UK Trade.*

[44] Automotive News Europe, "Automakers Warn Millions of Jobs at Risk in No-Deal Brexit" (Reuters), September 23, 2019; and European Automobile and Manufacturers Association, *Brexit and the Auto Industry: Facts and Figures*, March 2019.

[45] Georgina Hutton, *Brexit and Chemicals Regulation (REACH)*, UK House of Commons Library, September 19, 2019. Hereinafter, Hutton, *Brexit and Chemicals Regulation (REACH)*.

[46] Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation (REACH) requires registration of chemicals with a European Economic Area regulatory body and has rules to control or restrict the use of hazardous chemicals.

[47] Hutton, *Brexit and Chemicals Regulation (REACH)*.

[48] Based on 2017 data. Matthew Ward, *Statistics on UK-EU Trade*, UK House of Commons Library, July 24, 2019.

[49] Silla Brush and Alexander Weber, "London's Fight to Remain a Financial Hub After Brexit," *Washington Post*, July 3, 2019.

[50] Joe Wallace and Mischa Frankl-Duval, "Mapping Brexit: Where the Finance Jobs are Heading," *The Wall Street*

companies have already committed to moving over £1 trillion in assets from the UK to other parts of the EU as part of no-deal Brexit contingency planning.[51]

- **Business Services.** The EU is the largest export market for a range of UK business services (legal, accounting, advertising, research and development, architectural, engineering, and other professional and technical services)—accounting for 39% of these exports from the UK.[52] Determinations of professional certification qualifications may need to be made.
- **Data Flows.** Presently, data flows freely between the UK and other EU member states, underpinning much of UK-EU services trade.[53] If the UK is outside of the EU, the EU would no longer recognize the UK's personal data protection regime. Through a process known as an *adequacy decision,* the EU would have to determine whether the UK's standards for protecting personal data meet EU standards under the EU General Data Protection Regulation (GDPR).[54] The potential blockage of data transfers could have serious implications for UK companies seeking to transfer personal data out of the EU—including not only technology companies but also health care companies and other service providers.[55]

Global Britain

For Brexit supporters, a major rationale was for the UK to regain a fully independent trade policy. What might this trade policy look like? Since the referendum, the UK government has championed a notion of "Global Britain," previously under the May government and now under the Johnson government. The idea of Global Britain promotes the UK's renewed engagement in a wide range of foreign policy and international issues, with trade a significant aspect of the broader concept; Global Britain envisages, among other things, an outward looking UK strengthening trade linkages around the world.[56]

If it were no longer a part of the EU customs union, the UK could negotiate trade agreements with other countries and aim to tailor those agreement to its specific interests. The UK is the world's fifth-largest economy, with a gross domestic product (GDP) of $2.8 trillion in 2018, but it may have less leverage in trade negotiations on its own compared to negotiating as part of the EU.[57] As a member of the EU, the UK's negotiating leverage arguably is greater because the EU, with a GDP of $18.8 trillion in 2018, encompasses the collective economic weight of its member states.[58] The UK may therefore face difficulty rolling over or negotiating trade agreements that match its current trade terms as a member of the EU.

Journal, December 23, 2018.

[51] EY, "EY Financial Services Brexit Tracker: Financial Services firms put contingency plans in action as asset and job relocation continues to increase," March 20, 2019, https://www.ey.com/uk/en/newsroom/news-releases/190320-fs-brexit-tracker. Based on monitoring of financial statements of 222 of the largest financial services firms with UK operations.

[52] Ward, "Geographical Pattern of UK Trade."

[53] CRS In Focus IF10896, *EU Data Protection Rules and U.S. Implications*, by Rachel F. Fefer and Kristin Archick.

[54] European Commission, "Data Protection," https://ec.europa.eu/info/law/law-topic/data-protection_en.

[55] Mehreen Khan, Jim Pickard, and Janina Conboye, "No-Deal Brexit: How Prepared Are the UK and the EU?," *Financial Times*, July 31, 2019.

[56] UK Government, "Foreign Secretary Crosses the Atlantic to Expand Post-Brexit Opportunities for Global Britain," press release, August 6, 2019.

[57] World Bank, GDP (current U.S. dollars), https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?.

[58] See footnote 57.

Seeking continuity in its trade ties after Brexit, the UK is acting on a number of fronts. Among other things, the UK is:

- **Negotiating its own WTO schedule of commitments on goods, services, and agriculture.** *Schedule of commitments* refers to the commitments that WTO members make to all other WTO members on the nondiscriminatory market access (i.e., "most-favored-nation," or MFN, access) they will provide for trade in goods, services, agriculture, and government procurement. Although the UK is a WTO member in its own right, it does not have an independent schedule of commitments, as the EU schedule applies to all EU members, including the UK. Outside of the EU, the UK would need to have its own schedule on the market access commitments to other WTO members. In some cases, the UK may be able to replicate the EU schedule; other cases may be more complex. For example, developing the UK's agricultural schedule involves reallocation of EU and UK tariff-rate quotas such as beef, poultry, dairy, cereals, rice, sugar, fruits, and other vegetables.[59] The EU and UK have engaged in bilateral discussions on apportioning the tariff-rate quotas; some WTO members, including the United States, have raised concerns that the UK-EU approach could reduce the level and quality of their access to UK and EU markets.[60] In terms of other WTO developments, parties to the WTO Government Procurement Agreement (GPA) have agreed to the UK's continued participation in the GPA in principle; the UK has delayed submitting its instrument of accession for the GPA until February 27, 2020, in part because of the delay in Brexit.
- **Working to replicate existing EU deals with non-EU countries.** The UK is a part of over 40 trade agreements with around 70 countries by virtue of its membership in the EU. Unless it makes other arrangements, the UK would lose its preferential access to these markets after leaving the EU. To avoid this outcome, the UK has been working to replicate the EU's trade agreements with other countries.[61] To date, the UK has signed 13 "continuity" deals covering 38 countries or territories, including South Korea and Switzerland.
- **Negotiating sector-specific regulatory agreements.** As a member of the EU, the UK is a part of EU regulatory agreements with certain non-EU countries for conformity assessments on product standards and regulations in certain sectors.[62] In its preparations for Brexit, the UK government is aiming to replicate the key provisions of existing EU mutual recognition agreements (MRAs) with third-countries, including the United States, to assure continued acceptance by UK and partner country regulators of certain product testing and inspections by the other.
- **Taking steps to pursue a range of new trade deals once outside of the EU.** In addition to the United States, potential countries that the UK has identified as of

[59] For tariff-rate quotas, rates for imports inside a quota are lower, and in many cases significantly so, than for those outside the quota.

[60] See, for example, World Trade Organization, Council for Trade in Goods, "Members Call on EU and UK to Use Brexit Extension to Resolve Market Access Concerns," April 12, 2019.

[61] UK Government, Department for International Trade, "UK Trade Agreements with Non-EU Countries in a No-Deal Brexit," Guidance, last updated September 20, 2019.

[62] The EU has mutual recognition agreements with Australia, Canada, Israel, Japan, New Zealand, Switzerland, and the United States. See European Commission, Mutual Recognition Agreements, at https://ec.europa.eu/growth/single-market/goods/international-aspects/mutual-recognition-agreements_en.

interest for negotiating new trade deals include Australia, China, India, and New Zealand. A new priority for the UK is signing an FTA with Japan, with whom the EU already has an FTA.[63] Rather than "rolling over" the EU-Japan FTA, Japan seeks to negotiate new terms with the UK. Japan is one of the UK's largest investors, with major carmakers such as Nissan, Toyota, and Honda operating auto-manufacturing factories in the UK.

Brexit and Northern Ireland[64]

In the 2016 Brexit referendum, Northern Ireland voted 56% to 44% against leaving the EU. Brexit poses considerable challenges for Northern Ireland, with potential implications for its peace process, economy, and, in the longer term, constitutional status in the UK. Following Brexit, Northern Ireland would be the only part of the UK to share a land border with an EU member state (see **Figure 2**). Preventing a *hard border* on the island of Ireland (with customs checks and physical infrastructure) has been a key goal, and a major stumbling block, in negotiating and finalizing the UK's withdrawal agreement with the EU.

Deciding upon arrangements for the post-Brexit border between Northern Ireland and the Republic of Ireland is complicated by Northern Ireland's history of political violence. Roughly 3,500 people died during "the Troubles," the 30-year sectarian conflict (1969 to 1999) between *unionists* (Protestants who largely define themselves as British and support remaining part of the UK) and *nationalists* (Catholics who consider themselves Irish and may desire a united Ireland). At the time of the 1998 peace accord in Northern Ireland (known as the Good Friday Agreement or the Belfast Agreement), the EU membership of both the UK and the Republic of Ireland was regarded as essential to underpinning the political settlement by providing a common European identity for both unionists and nationalists in Northern Ireland. EU law also provided a supporting framework for guaranteeing the human rights, equality, and nondiscrimination provisions of the peace accord.

Since 1998, as security checkpoints were dismantled in accordance with the peace agreement, and because both the UK and Ireland belonged to the EU's single market and customs union, the circuitous 300-mile land border between Northern Ireland and Ireland effectively disappeared. The border's disappearance served as an important political and psychological symbol on both sides of the sectarian divide and helped produce a dynamic cross-border economy. Many experts deem an open, invisible border as crucial to a still-fragile peace process, in which deep divisions and a lack of trust persist. Some analysts suggest that tensions over Brexit also have contributed to the largely stalled negotiations in Northern Ireland between the unionist and nationalist communities' respective political parties on reestablishing the regional (or devolved) government, more than two years after the last legislative assembly elections. (For more background, see **Appendix B**.)

[63] UK Government, "Trade with Japan," September 20, 2019, at https://www.gov.uk/government/consultations/trade-with-japan.

[64] Also see CRS Report RS21333, *Northern Ireland: Current Issues and Ongoing Challenges in the Peace Process*, by Kristin Archick.

Figure 2. Map of Northern Ireland (UK) and the Republic of Ireland

Source: Graphic created by CRS using data from Esri (2017).

Possible Implications of Brexit

The Irish Border and the Peace Process

Many on both sides of Northern Ireland's sectarian divide worry that Brexit could lead to a return of a hard border with the Republic of Ireland that could destabilize the peace process. Police officials warn that a hard border post-Brexit could pose considerable security risks. During the Troubles, the border regions were considered "bandit country," with smugglers and gunrunners. Checkpoints were frequently the site of conflict, especially between British soldiers and militant nationalist groups (or *republicans*), such as the Irish Republican Army (IRA), that sought to achieve a united Ireland through force. Militant unionist groups (or *loyalists*) were also active during the Troubles.[65]

Security assessments suggest that if border or customs posts were reinstated, violent dissident groups opposed to the peace process would view such infrastructure as targets, endangering the lives of police and customs officers and threatening the security and stability of the border regions. Some experts fear that any such violence could lead to a remilitarization of the border and that the violence could spread beyond the border regions.[66] Many observers note a slight uptick in dissident republican activity over the last year, especially in border regions, as groups such as the New IRA and the Continuity IRA seek to exploit the stalemates over both Northern Ireland's devolved

[65] William Booth, "Northern Ireland Has Become an Unexpected Hurdle for Brexit," *Washington Post*, February 28, 2018.

[66] Sarah Lyall, "On Irish Border, Worries That Brexit Will Undo a Hard-Won Peace," *New York Times*, August 5, 2017; Henry McDonald, "Police Chief Says 'Hard Brexit' Irish Border Would Be Paramilitary Target," *Guardian*, February 7, 2018.

government and Brexit. Violence has been directed in particular at police officers (long regarded by dissident republicans as legitimate targets), and several recent failed bombings have been attempted in border areas (especially Londonderry/Derry, a key flashpoint during the Troubles).[67]

Many in Northern Ireland and Ireland also are eager to maintain an open border to ensure "frictionless" trade, safeguard the north-south economy, and protect community relations. Furthering Northern Ireland's economic development and prosperity is regarded as a crucial aspect of ensuring a lasting peace in Northern Ireland. Establishing customs checkpoints would pose logistical difficulties, and many people in the border communities worry that any hardening of the border could affect daily travel across the border to work, shop, or visit family and friends. Estimates suggest there are roughly 208 public road crossings along the border and nearly 300 crossing points when private roads and other unmarked access points are included.[68] Some roads cross the border multiple times, and the border splits other roads down the center. Only a fraction of crossing points were open during the Troubles, and hour-long delays due to security measures and bureaucratic hurdles were common.[69]

UK, Irish, and EU leaders have asserted repeatedly that they do not want a hard border and have worked to prevent such a possibility. In the initial December 2017 UK-EU agreement setting out the main principles for the withdrawal negotiations, the UK pledged to uphold the Good Friday Agreement, avoid a hard border (and any physical infrastructure), and protect north-south cooperation on the island of Ireland. Analysts contend, however, that reaching agreement on the backstop mechanism to ensure an open border was complicated by the UK government's pursuit of a largely hard Brexit, which would keep the UK outside of the EU's single market and customs union. As discussed previously, the backstop arrangement reached in November 2018 by UK and EU negotiators has emerged as the primary sticking point in gaining the UK Parliament's approval of the draft withdrawal agreement. Prime Minister Johnson opposes the backstop but also has asserted a desire to avoid a hard border on the island of Ireland.[70]

Some advocates of a hard Brexit contend that the border issue is being exploited by the EU and those in the UK who would prefer a soft Brexit, in which the UK would remain inside the EU single market and/or customs union. The Good Friday Agreement commits the UK to normalizing security arrangements, including the removal of security installations "consistent with the level of threat," but does not explicitly require an open border. The Irish government and many in Northern Ireland, however, argue that although the Good Friday Agreement may not mandate an open border, an open border has become intrinsic to peace, and a hard border would violate the spirit of the peace accord (a position subscribed to by former Prime Minister May). The Irish government and others also contend that a hard border would violate the provisions in the Good Friday Agreement

[67] Julian O'Neill, "Q&A: Why Is Dissident Republican Activity On the Rise?," BBC News, September 15, 2019.

[68] In comparison, there are 137 land crossings on the 3,700-mile eastern frontier that separates the EU from Belarus, Moldova, Russia, and Ukraine. Brian Hutton, "Ireland Has 208 Border Crossing, Officials from North and South Agree," *Irish Times*, April 26, 2018; Maeve Sheehan, "Irish Army Identifies 300 Border Crossing Points," *Belfast Telegraph*, December 17, 2018.

[69] The UK government asserts there are 15 principal crossing points along the Northern Ireland-Ireland land border and "many" other crossing points; it estimates there are 110 million person border crossings annually. UK Government, "Additional Data Paper: Common Travel Area Data and Statistics," *The UK's Exit from the European Union: Northern Ireland and Ireland – Position Paper*, August 16, 2017. Also see Bryn Colton, Sam Dodge, and Rodney Jefferson, "The 310 Miles Breaking Brexit," Bloomberg.com, September 9, 2019.

[70] "PM Johnson Stands by Peace, No Hard Border Whatever Brexit Result," Reuters, July 31, 2019.

that call for north-south cooperation on cross-border issues (including transport, agriculture, and the environment).[71]

Some advocates of a hard Brexit, frustrated by the Irish border question, have ruminated on whether the Good Friday Agreement has outlived its usefulness, especially in light of the stalemate in reestablishing Northern Ireland's devolved government. The UK government of former Prime Minister May responded that it remained "fully committed" to the Good Friday Agreement, and Prime Minister Johnson also has asserted his commitment to upholding the 1998 accord.[72] Prime Minister Johnson and DUP leaders contend, however, that the backstop mechanism—in establishing different regulatory requirements for Northern Ireland and thus effectively dividing Northern Ireland from the rest of the UK—violates Good Friday Agreement's *consent principle*, which stipulates that any change in Northern Ireland's status can come about only with the consent of the majority of its people. The Irish government and the EU reject this view of the backstop, and many analysts point out that the consent principle in the Good Friday Agreement applies specifically to a change in Northern Ireland's constitutional status (i.e., whether the people of Northern Ireland wish to remain part of the UK or wish instead to be part of a united Ireland).[73]

Some UK officials suggest that if a devolved government in Northern Ireland cannot be formed by the Brexit deadline, and especially in the case of a no-deal Brexit, the UK government would have to reinstate direct rule (in which ministers in London would pass laws for Northern Ireland).[74] Since the devolved government's collapse in 2017, civil servants have effectively run Northern Ireland, but they lack the power to take political decisions or pass new laws, which may be necessary to manage Brexit's consequences. Nationalists in Northern Ireland would be strongly opposed to direct rule as would the Irish government, which would likely seek to play a consultative role in Northern Ireland's affairs in the event of direct rule and in accordance with certain provisions in the Good Friday Agreement. Many in Northern Ireland, however, likely would view the reimposition of direct rule as a significant blow to the peace process.[75]

Although the UK and Ireland have escalated contingency planning for a no-deal Brexit, the Irish government has resisted making plans for physical infrastructure on the border. It maintains that there will be no hardening of the Irish border under any circumstances. Dublin also insists that an arrangement similar to the backstop would have to be negotiated even if there were no approved UK withdrawal agreement. Irish Prime Minister Leo Varadkar admits that a no-deal scenario would entail "difficult discussions" with the EU and the UK.[76] Some analysts assert, however, that in the event of a no-deal Brexit, protecting the integrity of the single market would be an EU priority, which would necessitate customs checks and some sort of border infrastructure somewhere. In

[71] John Campbell, "Brexit: Does the Irish Peace Accord Rule Out a Hard Border?," BBC News, January 30, 2019; Tom McTague, "Brexit's Ulster Problem," *Politico Europe*, June 12, 2019.

[72] "UK Fully Committed to Good Friday Agreement," *Belfast Telegraph*, February 19, 2018; Peter Geoghegan, "Brexiteers Launch Broadside at Northern Ireland Peace Deal," *Politico Europe*, February 22, 2018; "Boris Johnson: I Am Committed to Good Friday Agreement," BBC News, July 31, 2019.

[73] "DUP Leader Foster To Meet PM for Brexit Talks in Belfast," *Belfast Telegraph*, February 4, 2019; Jonathan Gorvett, "Northern Ireland Politics Are Broken," *Foreign Policy*, August 27, 2019; Denis Staunton, "Backstop Compatible with Belfast Agreement, Says Coveney," *Irish Times*, September 6, 2019.

[74] Northern Ireland was governed through direct rule throughout most of the Troubles (from 1972 to 1999) and intermittently between 2000 and the 2007 DUP-Sinn Fein power-sharing agreement.

[75] Enda McClafferty and Jayne McCormack, "Brexit: Julian Smith and Boris Johnson Clash over Parliament Suspension," BBC News, September 5, 2019; George Parker and Arthur Beesley, "Johnson Clashes with Varadkar on Direct Rule in N. Ireland," *Financial Times*, September 9, 2019.

[76] As quoted in, John Campbell, "Brexit: David Sterling Warns of 'Grave' No-Deal Consequences," BBC News, March 5, 2019.

September 2019, Prime Minister Varadkar appeared to concede that a no-deal Brexit might require some checks on certain goods and live animals "near" the border.[77]

The Economy

Many experts contend that Brexit could have serious negative economic consequences for Northern Ireland. According to a UK parliamentary report, Northern Ireland depends more on the EU market (and especially that of Ireland) for its exports than does the rest of the UK.[78] In 2017, approximately 57% of Northern Ireland's exports went to the EU, including 38% to Ireland, which was Northern Ireland's top single export and import partner. Trade with Ireland is especially important for small- and medium-sized companies in Northern Ireland, which are responsible for the vast majority of Northern Ireland exports to Ireland. Although sales in 2017 to other parts of the UK (£11.3 billion) surpassed the value of all Northern Ireland exports (£10.1 billion) and were nearly three times the value of exports to Ireland (£3.9 billion), large- and medium-sized Northern Ireland firms dominated in sales to the rest of the UK.[79]

Analysts suggest that a hard Brexit or a no-deal scenario in particular could jeopardize integrated labor markets and industries that operate on an all-island basis. Northern Ireland's agri-food sector, for example, would face serious challenges from a no-deal scenario. Food and live animals make up roughly 32% of Northern Ireland's exports to Ireland; a no-deal Brexit could effectively end this trade due to the need for EU sanitary and phytosanitary checks at specified border inspection posts in Ireland, which would significantly extend travel times and increase costs.[80] The Ulster Farmers' Union—an industry association of farmers in Northern Ireland—has asserted that a no-deal Brexit would be "catastrophic" for Northern Ireland farmers.[81] Many manufacturers in Northern Ireland and Ireland also depend on integrated supply chains north and south of the border; raw materials that go into making products such as milk, cheese, butter, and alcoholic drinks often cross the border between Northern Ireland and Ireland several times for processing and packaging.[82]

In addition, Brexit could have other economic ramifications for Northern Ireland. Some experts argue that access to the EU single market has been one reason for Northern Ireland's success in attracting foreign direct investment since the end of the Troubles, and they express concern that Brexit could deter future investment. Post-Brexit, Northern Ireland also stands to lose EU regional funding (roughly $1.3 billion between 2014 and 2020) and agricultural aid (direct EU farm subsidies to Northern Ireland are nearly $375 million annually).[83]

UK officials assert that the government is determined to safeguard Northern Ireland's interests and "make a success of Brexit" for Northern Ireland.[84] UK and DUP leaders maintain that the rest of the

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[77] John Campbell, "Brexit: What Does Ireland Do If There's No Deal?," BBC News, December 13, 2018; Daniel Boffey and Jennifer Rankin, "No-Deal Brexit Would Mean Hard Irish Border, EU Confirms," *Guardian*, January 22, 2019; "'No Breakthrough Expected from Johnson Meeting' - Varadkar," BBC News, September 6, 2019.

[78] Report of the UK House of Lords European Union Committee, *Brexit: UK-Irish Relations*, December 2016.

[79] Northern Ireland Statistics and Research Agency, *Overview of Northern Ireland Trade*, June 19, 2019.

[80] Sean Clarke, Daniel Levitt, and Pablo Gutierrez, "A Typical Hour in the Life of the Irish Border," *Guardian*, September 3, 2019.

[81] Lisa Smyth, "UFU Warns No-Deal Brexit Will Be Catastrophic for NI's Agriculture Industry," *Belfast Telegraph*, August 3, 2019.

[82] Simon Marks, "Brexit Is (Maybe) the Ruin of Irish Whiskey," *Politico Europe*, March 3, 2017; Colm Kelpie, "Brexit: How Would No-Deal Affect Northern Ireland?," BBC News, September 22, 2019.

[83] *Brexit: Impact Across Policy Areas*, UK House of Commons Library, August 26, 2016.

[84] UK Government Press Release, "Brokenshire Holds Inaugural Meeting of Northern Ireland Business Advisory Group,"

UK is more important economically, historically, and culturally to Northern Ireland than the EU. UK and DUP officials insist that Northern Ireland will continue to trade with the EU (including Ireland) and that Brexit offers new economic opportunities for Northern Ireland outside the EU.[85]

Constitutional Status and Border Poll Prospects

Brexit has revived questions about Northern Ireland's constitutional status. Sinn Fein—the leading nationalist party in Northern Ireland—argues that "Brexit changes everything" and could generate greater support for a united Ireland.[86] Since the 2016 Brexit referendum, Sinn Fein has repeatedly called for a *border poll* (a referendum on whether Northern Ireland should remain part of the UK or join the Republic of Ireland) in the hopes of realizing its long-term goal of Irish unification; Sinn Fein contends that a border poll should be held immediately in the event of a no-deal Brexit and/or a hardened border.[87] The Good Friday Agreement provides for the possibility of a border poll, in line with the consent principle noted above. Any decision to hold a border poll on Northern Ireland's constitutional status rests with the UK Secretary of State for Northern Ireland, who must call a border poll if it "appears likely" that "a majority of those voting would express a wish that Northern Ireland should cease to be part of the United Kingdom and form part of a united Ireland."[88]

At present, most experts believe the conditions required to hold a border poll on Northern Ireland's constitutional status do not exist. Most opinion polls indicate that a majority of people in Northern Ireland continue to support Northern Ireland's position within the UK, although some surveys suggest that views may be shifting and that a "damaging Brexit" in particular could increase support for a united Ireland. One recent poll found that 46% of those polled in Northern Ireland favored unification with Ireland, versus 45% who preferred remaining part of the UK.[89]

Irish Prime Minister Varadkar asserts that a border poll in the near future would be divisive and disruptive. Some observers suggest that Prime Minister Varadkar's current priority is ensuring an orderly Brexit, and any support or planning for a poll on Irish unification could fan unionist fears and impede this goal. Others note that the extent of public and political support in the Republic of Ireland for unification is uncertain, given the potential economic costs of unification and concerns that it could spark renewed loyalist violence in Northern Ireland.[90]

Implications for U.S.-UK Relations

Many U.S. officials and Members of Congress view the UK as the United States' closest and most reliable ally. This perception stems from a combination of factors, including a sense of shared history, values, and culture; a large and mutually beneficial economic relationship; and extensive

September 1, 2016.

[85] Stephen Walker, "Brexit: Northern Ireland Can Be Success Outside EU," BBC News, October 4, 2016; Pat Leahy, "No Return to Hard Border Post-Brexit, Says Theresa May," *Irish Times*, January 30, 2017.

[86] Sinn Fein Discussion Document, *Towards a United Ireland*, November 2016.

[87] "Brexit: Sinn Fein Repeats Call for Border Poll If No Deal," BBC News, July 30, 2019.

[88] UK Government, Northern Ireland Act 1998.

[89] Jonathan Bell, "Brexit Impact on Northern Ireland Could Sway Border Poll Result," *Belfast Telegraph*, October 25, 2017; Nick Eardley, "Brexit: 'Very Real' Chance of Irish Unity Poll If No Deal," BBC News, February 8, 2019; "Slight Majority for Unification in Northern Ireland – Poll," *Irish Times*, September 11, 2019.

[90] Mark Devenport, "Border Poll Not Priority for Leo Varadkar Post-Brexit," BBC News, August 7, 2019; Naomi O'Leary, "In Brexit Talks, Belfast Loyalists See Risk of Return to Violence," *Politico Europe*, September 23, 2019.

cooperation on foreign policy and security issues. The UK and the United States have a particularly close defense relationship and a unique intelligence-sharing partnership.

Since 2016, President Trump has been outspoken in repeatedly expressing his support for Brexit.[91] President Trump counts leading Brexit supporters, including Boris Johnson and Brexit Party leader Nigel Farage, among his personal friends.[92] He publicly criticized Theresa May's handling of Brexit and stated during the most recent Conservative leadership race that Boris Johnson would "make a great prime minister."[93]

Senior Administration officials have reinforced the President's pro-Brexit messages. During an August 2019 visit to London, then-U.S. National Security Adviser John Bolton stated that the Administration would "enthusiastically" support a no-deal Brexit; he asserted that a U.S.-UK trade deal could be negotiated quickly and possibly be concluded sector-by-sector to speed up the process.[94] In a September 2019 visit to Ireland, Vice President Mike Pence reiterated the Administration's support for the UK leaving the EU and urged Ireland and the EU to "work to reach an agreement that respects the United Kingdom's sovereignty."[95] Vice President Pence expressed his hope that an agreement would "also provide for an orderly Brexit."[96]

Foreign Policy and Security Issues

President Trump has expressed a largely positive view of the UK and made his first official state visit there in June 2019 (he also visited in July 2018), but there have been some tensions over substantive policy differences between the UK government and the U.S. Administration and backlash from the UK side over various statements made by the President. Under President Trump and Prime Minister May, the United States and the UK proceeded from relatively compatible starting points and maintained close cooperation on issues such as counterterrorism, combating the Islamic State, and seeking to end the conflict in Syria.

In contrast, the UK government has strongly defended both the Joint Comprehensive Plan of Action agreement (known as the Iran nuclear deal) and the Paris Agreement (known as the Paris climate agreement) and disagreed with the Trump Administration's decisions to withdraw the United States from those agreements.[97] Prime Minister May disagreed with the Trump Administration's recognition of Jerusalem as Israel's capital, calling the move "unhelpful in terms of prospects for peace in the region."[98] She also expressed "deep concern" about the President's March 2018 decision to introduce tariffs on steel and aluminum imports to the United States.[99]

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[91] Sam Levin, "Donald Trump Backs Brexit, Saying UK Would Be 'Better Off' Without EU," *Guardian*, May 5, 2016 and Justin Wise, "Trump Says He Supports UK Leaving EU Without a Brexit Deal ," *The Hill*, June 2, 2019.

[92] Steve Holland and Guy Faulconbridge, "Ahead of UK Visit, Trump Praises Brexit-Supporting 'Friends' Johnson and Farage," Reuters, May 30, 2019.

[93] Max Greenwood, "Trump: Boris Johnson Would 'Make a Great Prime Minister'," *The Hill*, July 12, 2019.

[94] Adam Taylor, "John Bolton Promises Britain Will Be 'Front of the Trade Queue' After Brexit, Says E.U. Treats Citizens Like 'Peasants'," *Washington Post*, August 13, 2019, and "UK 'First in Line' for US Trade Deal, Says John Bolton," BBC News, August 13, 2019.

[95] Suzanne Lynch, "Pence's Brexit Backing Catches Dublin Unawares," *The Irish Times*, September 3, 2019.

[96] Alexandra Alper, "Pence Says He Hopes for Orderly Brexit Amid Showdown," Reuters, September 4, 2019.

[97] Foreign and Commonwealth Office, *Foreign Secretary's Statement on the Iran Nuclear Deal Following Brussels Meeting*, January 11, 2018.

[98] Prime Minister's Office, *PM Statement on US Decision to Move Embassy to Jerusalem*, December 6, 2017.

[99] Christopher Hope and Julie Allen, "Theresa May Urges Donald Trump Not to Start a Trade War as She Tells Him of Her 'Deep Concern' at Tariff Plan," *The Daily Telegraph*, March 4, 2018.

Despite the close relationship between President Trump and Prime Minister Johnson, there are no clear indications that a post-Brexit UK might reverse course on contentious areas such as the Iran nuclear deal or climate change to align with the views of the Trump Administration.

Brexit has forged opposing viewpoints about the potential trajectory of the UK's international influence in the coming years. The Conservative Party-led government has outlined a post-Brexit vision of a Global Britain that benefits from increased economic dynamism; remains heavily engaged internationally in terms of trade, political, and security issues; maintains close foreign and security policy cooperation with both the United States and the EU; and retains "all the capabilities of a global power."[100] Other observers contend that Brexit would reduce the UK's ability to influence world events and that, without the ability to help shape EU foreign policy, the UK will have less influence in the rest of the world.[101] Developments in relation to the UK's global role and influence are likely to have consequences for perceptions of the UK as either an effective or a diminishing partner for the United States.

Parallel debates apply to a consideration of security and defense matters. Analysts believe that close U.S.-UK cooperation will continue for the foreseeable future in areas such as counterterrorism, intelligence, and the future of the NATO, as well as numerous global and regional security challenges. NATO remains the preeminent transatlantic security institution, and in the context of Brexit, UK leaders have emphasized their continued commitment to be a leading country in NATO. Analysts also expect the UK to remain a key U.S. partner in operations to combat the remaining elements of the Islamic State in Iraq and Syria.

In 2018, the UK had the world's sixth-largest military expenditure (behind the United States, China, Saudi Arabia, Russia, and India), spending approximately $56.1 billion.[102] The UK is also one of seven NATO countries to meet the alliance's defense spending benchmark of 2% of GDP (according to NATO, the UK's defense spending was 2.14% of GDP in 2018 and is expected to be 2.13% of GDP in 2019).[103]

Nevertheless, Brexit has added to questions about the UK's ability to remain a leading military power and an effective U.S. security partner. U.S. officials and other leading experts have expressed concerns about reductions in the size and capabilities of the British military in recent years.[104] Negative economic effects from Brexit could exacerbate concerns about the UK's ability to maintain defense spending, investment, and capabilities.

Brexit also could have a substantial impact on U.S. strategic interests in relation to Europe more broadly and with respect to possible implications for future developments in the EU. For example, Brexit could allow the EU to move ahead more easily with developing shared capabilities and undertaking military integration projects under the EU Common Security and Defense Policy (CSDP), efforts that generate a mixture of praise and criticism from the United States. In the past,

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[100] Foreign and Commonwealth Office, Cabinet Office, and Prime Minister's Office, *Global Britain: Delivering on Our International Ambition* , September 23, 2019, at https://www.gov.uk/government/collections/global-britain-delivering-on-our-international-ambition and Jeremy Hunt, "Britain Has Been Shaping the World for Centuries. That Won't change with Brexit," *Washington Post*, March 28, 2019.

[101] Emilio Casalicchio, "UK Will Be 'Diminished' After Brexit, Rutte Warns Tory Leadership Hopefuls," *politico.eu*, June 20, 2019, and "UK to Lose Global Influence After Brexit - Lord Hague," BBC News, July 6, 2017.

[102] International Institute for Strategic Studies, *The Military Balance 2019*, pp. 21.

[103] NATO Public Diplomacy Division, *Defence Expenditures of NATO Countries (2012-2019)*, June 25, 2019.

[104] See, for example, Steven Erlanger, "Austerity-Battered U.K. 'Retreating Behind a Nuclear Shield'," *New York Times*, April 27, 2019 and Ewen MacAskill, "US Defence Secretary Intervenes in UK Military Budget Row," *Guardian*, July 2, 2018.

the UK has irritated some of its EU partners by essentially vetoing initiatives to develop a stronger CSDP, arguing that such efforts duplicate and compete with NATO. With the UK commonly regarded as the strongest U.S. partner in the EU, a partner that commonly shares U.S. views, and an influential voice in initiatives to develop EU foreign and defense policies, analysts have suggested that the UK's withdrawal could increase divergence between the EU and the United States on certain security and defense issues.[105]

More broadly, U.S. officials have long urged the EU to move beyond what is often perceived as a predominantly inward focus on treaties and institutions, in order to concentrate more effort and resources toward addressing a wide range of shared external challenges. Some observers note that Brexit has pushed Europe back toward another prolonged bout of internal preoccupation, consuming a considerable degree of UK and EU time and personnel resources in the process.

Trade and Economic Relations and Prospective U.S.-UK FTA

The UK is a major U.S. trade and economic partner (see **Figure 3**). In 2018, the UK was the United States' fifth-largest goods export market, seventh-largest goods import supplier, and largest services trading partner. U.S trade in goods and services with the UK ($263 billion) accounted for about one-fifth of U.S. trade with the EU ($1.3 trillion) in 2018.[106] The UK is also a leading source of and destination for foreign direct investment, and affiliate activity is significant. Brexit presents commercial uncertainty for the about 42,000 U.S. companies exporting to the UK and for the U.S. firms operating in the UK, which include some 4,000 majority-owned subsidiaries (2017 data).[107] Presently, WTO terms govern U.S.-UK trade (like U.S. trade with the rest of the EU), and these terms would apply after Brexit unless the two sides secure more preferential access to each other's markets through the conclusion of a bilateral FTA.

On October 16, 2018, the Trump Administration notified Congress under Trade Promotion Authority (TPA) of its intent to enter into negotiations with the UK on a bilateral trade agreement, which many Members of Congress support. Some Members of Congress have cautioned that they would oppose a trade agreement if Brexit were detrimental to the Northern Ireland peace process, whereas others support a trade agreement regardless of how Brexit occurs.[108]

As the UK cannot formally negotiate or conclude a new agreement until it exits the EU, the United States and UK established a bilateral working group in July 2017 to lay the groundwork for a potential future bilateral FTA post-Brexit and to ensure commercial continuity in U.S.-UK ties. They also have signed MRAs covering telecommunications equipment, electromagnetic compatibility for information and communications technology products, pharmaceutical good manufacturing practice inspections, and marine equipment to ensure continuity of trade in these

[105] Stephanie Hofmann, "Brexit Will Weigh Heavily on European Security. Here's Why," *Washington Post*, October 18, 2018.

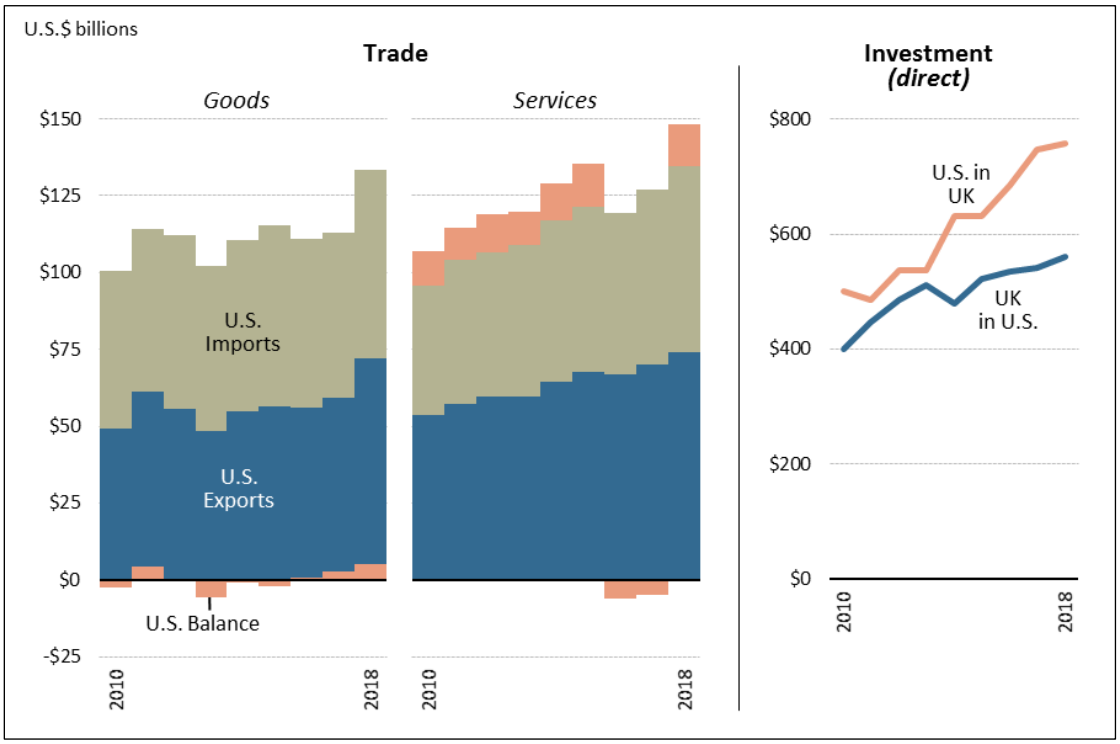
[106] U.S. Bureau of Economic Analysis.

[107] U.S. Census Bureau, *Profile of U.S. Importing and Exporting Companies, 2016-2017*, September 26, 2019, see Table 5a: 2017 Exports by Company Employment Size to World Areas and Selected Countries, and U.S. Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2017, August 23, 2019, p. 8.

[108] See, for example, Speaker of the House, "Pelosi Statement on Potential Post-Brexit U.S.-UK Trade Agreement," press release, August 14, 2019. Senator Chuck Grassley, "Grassley Joins Colleagues in Letter Pledging to Back Britain After Brexit," August 6, 2019.

areas.[109] The United States and UK have signed agreements on insurance and derivatives trading and clearing, as well, to ensure regulatory certainty.[110]

Figure 3. U.S. Trade and Foreign Direct Investment with the UK, 2018



Source: CRS, with U.S. Bureau of Economic Analysis data.

Notes: Trade data are on a flow basis, whereas foreign direct investment data are on a stock (historical-cost) basis.

Should the UK regain independence over its trade policy, prospects for a U.S.-UK FTA are mixed. Some experts view a U.S.-UK FTA as more feasible than a U.S.-EU FTA, given the U.S.-UK "special relationship" and historical similarities in trade approaches. The UK has been a leading voice on trade liberalization in the EU. Others caution against the likelihood of a "quick win," particularly as some trade irritants have reemerged.[111] For instance, U.S. demands for greater access to the UK market raise UK food safety and other regulatory concerns about U.S. industry practices of disinfecting chicken with chlorine and treating beef with hormones. Key issues also could include financial services, investment, and e-commerce.

Some U.S. businesses see the proposed negotiations as an opportunity to align UK regulations more closely with those of the United States than the EU regulatory framework, aspects of which raise

[109] Office of the United States Trade Representative (USTR), "USTR Signs Mutual Recognition Agreements with the United Kingdom," press release, February 2019. U.S. exports to the UK of products covered in these agreements was over $5 billion 2018 (total U.S. goods exports to the UK were $67 billion).

[110] U.S. Department of the Treasury, "Treasury, USTR Finalize Bilateral Agreement with the UK on Prudential Measures Regarding Insurance and Reinsurance," press release, December 11, 2018; and U.S. Commodity Future Trading Commission, "Joint Statement by UK and U.S. Authorities on Continuity of Derivatives Trading and Clearing Post-Brexit," press release, February 25, 2019.

[111] Emre Peker and Jason Douglas, "Trump-Backed U.S.-British Trade Deal Faces Hurdles," *Wall Street Journal*, August 27, 2019.

concerns for U.S. business interests. Other stakeholder groups oppose what they view as efforts to weaken UK regulations.[112] To the extent that the UK decides to continue aligning its rules and regulations with the EU, sticking points in past U.S.-EU trade negotiations could resurface in the U.S.-UK context.

The United States, meanwhile, may be hard-pressed to negotiate with the UK without clarity on the future UK-EU relationship. Another uncertainty is how the proposed U.S.-EU trade negotiations to defuse transatlantic trade frictions on tariffs and other issues may affect the outlook for the U.S.-UK trade negotiations. In addition, some stakeholders support using the trade negotiations as an opportunity to engage the UK on other issues, such as its approach to digital services taxes.

Should U.S.-UK trade agreement negotiations formally commence, it remains to be seen whether the United States and the UK would take a comprehensive approach in a "single undertaking" or seek a more limited agreement focused on certain issues or sectors. Under the Trump Administration, the United States has taken both approaches, for instance, taking a comprehensive approach with the U.S.-Mexico-Canada Trade Agreement (USMCA), which is the renegotiated North American Free Trade Agreement (NAFTA), and a more limited approach with the bilateral trade negotiations with Japan.[113]

It also remains to be seen whether a potential final FTA would meet congressional expectations or TPA requirements. Congress is expected to continue consultations with the Administration over the scope of proposed negotiations and to engage in oversight during negotiations. Congress would need to approve implementing legislation for a potential final trade agreement to enter into force.

Conclusion

More than three years after the Brexit referendum, the terms and timing of the UK's exit from the EU remain unclear, unresolved, and the subject of pronounced political division in the UK. Pending developments which provide further clarity and direction, a wide range of scenarios remain in play as possible outcomes, varying from a no-deal Brexit to a cancellation of Brexit. In between those two results, other possibilities include a negotiated hard Brexit, meaning a full departure from the EU single market and customs union and a full restoration of the UK's sovereignty over issues such as immigration and trade, as well as a soft Brexit in which the UK would retain considerable ties and obligations to the EU. Regardless of the precise turn of events, the topic of Brexit is expected to remain a primary focus of UK politics and a leading concern for the EU.

During the 116th Congress, developments with regard to Brexit and their implications for U.S.-UK and U.S.-EU relations, foreign policy and security cooperation, and the global economy and trade issues may remain of interest to Members of Congress. The topic of a prospective U.S.-UK free trade agreement may be a particular area of congressional interest. Congress also may consider how Brexit could affect Northern Ireland and the Northern Ireland peace process. Members of Congress may have an interest in monitoring political developments in the UK should there be an early general election tied to political deadlock over Brexit.

[112] See, for example, USTR, Trade Policy Staff Committee, Public Hearing on Negotiating Objectives for a U.S.-UK Trade Agreement, January 29, 2019.

[113] The USMCA was signed by the leaders of the three countries on November 30, 2018. Congress would need to pass legislation to implement the agreement before it can enter into force. See CRS In Focus IF10997, *Proposed U.S.-Mexico-Canada (USMCA) Trade Agreement*, by Ian F. Fergusson and M. Angeles Villarreal. The U.S.-Japan trade agreement has been concluded "in principle." CRS In Focus IF11120, *U.S.-Japan Trade Agreement Negotiations*, by Cathleen D. Cimino-Isaacs and Brock R. Williams.

Appendix A. Review of the Backstop and the Rejected Withdrawal Deal

Under former United Kingdom (UK) Prime Minister Theresa May, the approach of the UK government to leaving the European Union (EU) was to pursue a relatively *hard Brexit*, meaning a full departure from the EU single market and customs union, and a full restoration of British sovereignty over lawmaking, including with regard to controlling immigration.[114] The approach called for the UK to subsequently negotiate a free trade agreement with the EU to secure as much access to the EU market as possible.

In November 2018, EU and UK negotiators finalized a 585-page draft withdrawal agreement and a 26-page political declaration on the future relationship.[115] The withdrawal agreement contains four main elements to guide the UK's orderly departure from the EU:

- Guarantees pertaining to the rights of the approximately 3 million EU citizens residing in the UK and the approximately 1 million UK citizens residing in the EU.
- A commitment by the UK to pay the EU £39 billion (approximately $50 billion) to settle outstanding budgetary and financial pledges.
- A transition period, lasting through 2020, in which the UK would be bound to follow all rules governing the EU single market while the two sides negotiate their future relationship and implement steps needed to effect an orderly separation.
- A *backstop* provision, which would keep the UK in the EU customs union until the two sides agreed on their future trade relationship. The backstop was made necessary by the lack of an apparent solution to the Irish border question, with both sides intent on avoiding a *hard border* with customs checks and physical infrastructure between Northern Ireland and the Republic of Ireland. The provision was intended to protect cross-border trade and preserve the peace process between parties to Northern Ireland's long sectarian conflict.[116] The EU also viewed the backstop as necessary to ensure that Brexit would not violate the rules and structure of the EU single market.

The non-binding political declaration on the future UK-EU relationship speaks of an economic partnership with the EU that features an ambitious free trade area and deep cooperation, but also "separate markets and distinct legal orders," and the development of an independent UK trade policy.

The backstop provision became one of the main obstacles to securing Parliament's approval of the withdrawal agreement. Although the former May government contended that it would never be necessary to implement the backstop, critics noted that the UK would be unable to conduct an independent national trade policy, one of the main selling points for Brexit's supporters, as long as the UK remained a member of the EU customs union. (The backstop would take effect at the

[114] HM Government, Department for Exiting the European Union, *The United Kingdom's Exit From, And New Partnership With, The European Union*, February 2, 2017.

[115] European Commission, *Draft Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union* and *Political Declaration Setting out the Framework for the Future Relationship Between the European Union and the United Kingdom*, 14 November 2018.

[116] See CRS Insight IN10869, *Northern Ireland, Brexit, and the Irish Border*, by Kristin Archick and Derek E. Mix

conclusion of the transition period—that is, at the end of 2020—if the two sides had not reached a new trade agreement with more preferable arrangements for resolving the border issue.)

Supporters of a hard Brexit, led by a faction of the Conservative Party, have objected that the backstop would leave the UK a "vassal state" of the EU, bound indefinitely to many EU rules (both sides would have to jointly agree to end the backstop).[117] Many unionists in Northern Ireland strongly opposed the deal because a provision in the backstop would preserve deeper regulatory alignment between Northern Ireland and the EU to avoid a hard border.[118] They argue that it is unacceptable to treat Northern Ireland differently from the rest of the UK and that doing so weakens the UK's constitutional integrity.

Advocates of a *soft Brexit* maintain that permanent membership in the EU single market would be the least damaging outcome in economic terms, and that an assurance of permanent customs union membership would mitigate Brexit-related uncertainties. Many who favor a soft Brexit argue that the withdrawal agreement prolongs such uncertainties while failing to deliver sufficient benefits. Others in the opposition parties voted against the deal in the hopes that its defeat would lead to an early general election or a second referendum on EU membership.

Between January 2019 and March 2019, the House of Commons rejected the withdrawal agreement three times. The House of Commons also held a series of non-binding "indicative" votes to determine where Members stood on options and proposals, including staying in the EU single market and/or customs union, leaving without a deal, cancelling the withdrawal process to avoid "no deal," and holding a public vote to confirm any deal. No proposal received a majority.

[117] Patrick Grafton-Green, "Brexit Deal Latest: Boris Johnson and Jacob Rees-Mogg Hit Out at Theresa May as Divorce Deal 'Reached'," *Evening Standard*, November 13, 2018.

[118] Department for Exiting the European Union, *Withdrawal Agreement Explainer and Technical Explanatory Note on Articles 6-8 on the Northern Ireland Protocol*, November 14, 2018.

Appendix B. Northern Ireland: From the Troubles to a Fragile Peace

Between 1969 and 1999, roughly 3,500 people died as a result of political violence in Northern Ireland. The conflict, often referred to as "the Troubles," has its origins in the 1921 division of Ireland and reflects a struggle between different national, cultural, and religious identities.[119] Protestants in Northern Ireland (48%) largely define themselves as British and support remaining part of the United Kingdom (*unionists*). Catholics in Northern Ireland (45%) consider themselves Irish, and many Catholics desire a united Ireland (*nationalists*). In the past, more militant unionists (*loyalists*) and more militant nationalists (*republicans*) were willing to use violence to achieve their goals.

The 1998 Peace Agreement

For years, the British and Irish governments sought to facilitate a negotiated political settlement to the conflict. After many ups and downs, the two governments and the Northern Ireland political parties participating in peace talks announced an agreement on April 10, 1998. The resulting Good Friday Agreement—or Belfast Agreement—is a multi-layered and interlocking document, consisting of a political settlement reached by Northern Ireland's political parties and an international treaty between the UK and Irish governments.[120]

At the core of the Good Friday Agreement is the *consent principle*—that is, a change in Northern Ireland's status as part of the United Kingdom (UK) can come about only with the consent of the majority of Northern Ireland's people (as well as with the consent of a majority in Ireland). Although the agreement acknowledged that a substantial section of the population in Northern Ireland and a majority on the island desired a united Ireland, it recognized that the majority of people in Northern Ireland wished to remain part of the UK. If the preferences of these majorities were to change, the agreement asserted that both the UK and Irish governments would have a binding obligation to bring about the wish of the people; thus, the agreement included provisions for future polls (a *border poll*) to be held in Northern Ireland on its constitutional status should events warrant.

The Good Friday Agreement set out a framework for devolved government—the transfer of specified powers over local governance from London to Belfast—with a Northern Ireland Assembly and Executive Committee in which unionist and nationalist parties would share power. The agreement also contained provisions on the decommissioning (disarmament) of paramilitary weapons, policing, human rights, UK security normalization (demilitarization) in Northern Ireland, and the status of prisoners. Finally, the Good Friday Agreement created several new institutions to promote "north-south" cooperation on cross-border issues among leaders on the island of Ireland

[119] In 1921, the mostly Catholic, southern part of Ireland won independence from the United Kingdom, resulting in the establishment of the Irish Free State in 1922 within the British Commonwealth. The Irish government formally declared Ireland a republic in 1948 and severed its remaining constitutional links with the UK. The Republic of Ireland, with a population of roughly 4.9 million, consists of 26 counties and encompasses about five-sixths of the island of Ireland; Northern Ireland, with approximately 1.9 million people, is composed of six counties and encompasses the remaining one-sixth of the island.

[120] Northern Ireland Office, *The Belfast Agreement*, April 10, 1998, at https://www.gov.uk/government/publications/the-belfast-agreement.

and "east-west" institutions to address regional issues affecting the UK, Ireland, the Channel Islands, and the Isle of Man.

Despite a much-improved security situation since 1998, full implementation of the Good Friday Agreement has been challenging. For years, instability in Northern Ireland's devolved government was the rule rather than the exception. Decommissioning and police reforms were key sticking points. In 2007, however, the hard-line Democratic Unionist Party (DUP) and Sinn Fein, the associated political party of the Irish Republican Army (IRA), reached a landmark power-sharing deal.[121] Regularly scheduled Assembly elections since the 2007 deal (in 2011 and 2016) produced successive power-sharing governments led by the DUP and Sinn Fein. In 2010, the DUP and Sinn Fein also reached an agreement to resolve the controversial issue of devolving police and justice affairs from London to Belfast.

Current Crisis in the Devolved Government and Other Challenges

Analysts largely view implementation of the most important aspects of the Good Friday Agreement as complete. At the same time, tensions and distrust persist among the unionist and nationalist communities and their respective political parties, and many experts suggest that the peace process remains fragile. The devolved government led by the DUP and Sinn Fein collapsed in January 2017, after 10 months in office. The immediate impetus for the collapse was a renewable energy scandal involving DUP leader and Northern Ireland First Minister Arlene Foster. However, frictions on several other issues—including Brexit, giving the Irish language the same official status as English, and legalizing same-sex marriage—contributed to Sinn Fein's decision to force snap Assembly elections. The DUP retained the largest number of Assembly seats in the March 2017 elections, but Sinn Fein reduced the gap with the DUP to one seat in the Assembly and was widely regarded as the biggest winner.[122]

Two and a half years after Assembly elections, Northern Ireland remains without a devolved government. Negotiations have proceeded in fits and starts but have stalled primarily over a potential stand-alone Irish Language Act. Some analysts suggest that the DUP's support for the Conservative Party government in the UK Parliament following the June 2017 snap general election further heightened distrust between Sinn Fein and the DUP, hardened the positions of both parties, and made reaching an agreement on a new devolved government more difficult. The DUP and Sinn Fein also are at odds over Brexit; Sinn Fein strongly opposes Brexit, whereas the DUP is the only major Northern Ireland political party to support it. Others note that Brexit has consumed UK and Northern Ireland politicians' time and attention and largely overshadowed negotiations on a new devolved government.[123]

In April 2019, journalist Lyra McKee was shot and killed while covering riots in Londonderry (also known as Derry). The New IRA, a dissident republican group opposed to the peace process, claimed responsibility (but also apologized, asserting that it had been aiming to shoot a police officer but hit McKee by accident). McKee's death sparked a significant public outcry and prompted the UK and Irish governments to launch a new, more intensive effort to revive talks with Northern Ireland's political parties on forming a new devolved government. Negotiations are

[121] The IRA has been on ceasefire since 1997 and officially ended its armed campaign in 2005.

[122] Harry McGee, "DUP Smarting from Close Encounter with Sinn Fein Crocodile," *Irish Times,* March 3, 2017; Enda McClafferty, "Assembly Elections a Brutal Result for Unionism," BBC News, March 4, 2017.

[123] Peter Hain, "Deal with DUP Means London Is No Longer Honest Broker on North," *Irish Times,* June 13, 2017; William Booth and Amanda Ferguson, "A Battle over Language Is at the Heart of Northern Ireland Crisis," *Washington Post,* February 9, 2018.

ongoing. The UK and Irish governments have pledged to put forward compromise solutions to the political parties on key issues. Many observers, however, view the talks as largely deadlocked and appear skeptical of an imminent breakthrough in the negotiations.[124]

Despite the decrease in the levels of violence since the Good Friday Agreement, Northern Ireland continues to grapple with a number of issues in its search for peace and reconciliation. Northern Ireland remains a largely divided society, with Protestant and Catholic communities existing in parallel. Around 100 *peace walls* or other physical barriers throughout Northern Ireland separate some Protestant and Catholic neighborhoods, and schools and housing estates remain mostly single-identity communities.[125] Sectarian tensions continue to flare periodically on issues such as parading, protests, and the use of flags and emblems. Other prominent challenges include addressing Northern Ireland's legacy of violence (often termed *dealing with the past*), curbing remaining paramilitary and dissident activity, and promoting economic development and equality. Experts also contend that Brexit may pose significant concerns for Northern Ireland's still-tenuous peace process and its future political and economic development.

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