Congressional Research Service
Informing the legislative debate since 1914

The United Kingdom: Background, Brexit, and Relations with the United States

Updated March 12, 2018

Congressional Research Service
https://crsreports.congress.gov
RL33105

CRS REPORT
Prepared for Members and
Committees of Congress

Summary

Many U.S. officials and Members of Congress view the United Kingdom (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 cooperation on foreign policy and security issues.

Conservative-Led Minority Government Following 2017 Election

The government of the UK is led by Prime Minister Theresa May of the Conservative Party. Her leadership position was weakened after she triggered an early election in June 2017, which resulted in the Conservatives losing their absolute majority in the 650-seat House of Commons. Prime Minister May formed a government after the Conservative Party reached a deal for support from the Democratic Unionist Party, the largest unionist political party in Northern Ireland. The Labour Party, led by Jeremy Corbyn, performed unexpectedly well in the 2017 election and constitutes the largest opposition party.

Managing Brexit

The UK's pending exit from the European Union (commonly referred to as *Brexit*) is the central issue facing the government. Prime Minister May has sought to manage differing views on the UK's future relationship with the EU and the resultant divisions within her Cabinet and the Conservative Party. The UK intends to leave the EU single market and customs union, while pursuing a free trade agreement with the EU and seeking to partner with the EU on a range of other issues.

Brexit Negotiations

The UK has been engaged in complex negotiations with the EU about the terms of withdrawal and arrangements for a transition period. The prime minister opened the process in March 2017, and withdrawal negotiations are to be completed within two years. The first phase focused on citizens' rights, a financial settlement, and a difficult combination of issues related to Northern Ireland and the border between Northern Ireland and the Republic of Ireland. The two sides reached a broad understanding on these issues in December 2017 and the EU published a draft withdrawal agreement in February 2018, but many details and unresolved differences remain to be clarified and agreed upon.

In December 2017, the EU determined that sufficient progress had been made to begin talks on the future trade and economic relationship. With initial negotiating guidelines established in March 2018, the EU appears less optimistic than the UK about the possibility of a deep and ambitious agreement that includes areas such as financial services and regulatory cooperation.

U.S.-UK Relationship

Since deciding to leave the EU, the UK has sought to reinforce its close ties with the United States and reaffirm its place as a leading country in NATO. President Trump has expressed a largely positive view of the UK, but there have been tensions and backlash from the UK side over both substantive differences and various statements made by the President.

Most analysts believe that the two countries will remain close allies that choose to cooperate in many important areas, such as counterterrorism, economic issues, and the future of NATO, as well as numerous global and regional security challenges. President Trump and some Members of Congress have expressed support for the idea of concluding a bilateral free trade agreement with the UK after it leaves the EU (see CRS Report R44817, *U.S.-UK Free Trade Agreement: Prospects and Issues for Congress*, by Shayerah Ilias Akhtar). The UK has the world's fifth-

largest defense expenditure, but U.S. officials have expressed concerns about past UK defense cuts and their effect on the UK's military capabilities.

Given its role as a close U.S. ally and partner, developments in the UK, Brexit negotiations, and the UK's relations with the United States are of continuing interest to the U.S. Congress. This report provides an overview and assessment of some of the main dimensions of these topics. For a broader analysis of EU issues, see CRS Report R44249, *The European Union: Current Challenges and Future Prospects*, by Kristin Archick.

Contents

Introduction 1
Domestic Political Situation 1
Brexit Background 3
Focus on Brexit 3
Brexit Negotiations and Relations with the EU 4
Citizens' Rights 6
Financial Settlement 6
Northern Ireland 7
Phase Two 8
Additional Issues and Considerations 9
Brexit, Austerity, and the UK Economy 11
U.S.-UK Relations 12
Political Relations 12
Security and Defense Relations 14
Counterterrorism 17
Economic Relations 18
Conclusion 18

Tables

Table 1. June 2017 UK General Election Results 2

Contacts

Author Information 19

Introduction

The modern relationship between the United States and the United Kingdom (UK) was forged during the Second World War. It was cemented during the Cold War, as both countries worked together bilaterally and within NATO to counter the threat of the Soviet Union. The United States and the UK are two of the five permanent members of the United Nations Security Council, and both are founding members of NATO. In the early 1990s, the UK was an important U.S. ally in the first Gulf War, and the two countries later worked together in stabilization and peacekeeping operations in the Balkans. The UK was the leading U.S. ally in the 2003 invasion of Iraq and subsequent stabilization operations, and it was the largest non-U.S. contributor to the NATO-led mission in Afghanistan. The UK remains an important U.S. partner in ongoing global security challenges, such as combatting international terrorism, countering the Islamic State terrorist group, and opposing Russia's annexation of Crimea and actions destabilizing Ukraine, including by supporting strong sanctions in response to these actions. The UK is also the sixth-largest economy in the world and a major financial center. The United States and the UK share an extensive and mutually beneficial trade and economic relationship, and each is the other's largest foreign investor.

U.S. and UK officials, from the Cabinet level down, consult frequently and extensively on many global issues. American and British diplomats report often turning to each other first when seeking to build support for their respective positions in multilateral institutions or during times of crisis, as in the immediate aftermath of the 9/11 attacks on the United States. British input is often cited as an element in shaping U.S. foreign policy debates. Some observers assert that a common language and cultural similarities, as well as the habits of cooperation that have developed over the years, contribute to the ease with which U.S. and UK policymakers interact with each other. The term *special relationship* has often been used to describe the high degree of mutual trust between the two countries in cooperating on diplomatic and political issues. The special relationship also encompasses close intelligence-sharing arrangements and unique cooperation in nuclear and defense matters.

Domestic Political Situation

The government of the UK is led by Prime Minister Theresa May of the Conservative Party. She became prime minister in July 2016, after David Cameron resigned in the wake of leading the unsuccessful campaign for the UK to remain in the European Union (EU). Cameron's departure came after having been reelected in May 2015 with an absolute majority for the Conservatives.[1]

As the longest-serving home secretary in modern times, May oversaw the UK's counterterrorism, policing, crime, and immigration policies from 2010 to 2016. A Member of Parliament (MP) since 1997, she is the UK's second female prime minister.

May remained prime minister after the UK election of June 8, 2017, resulted in a hung parliament, an outcome in which no single party won a majority of seats in the 650-seat House of Commons. With 318 seats, the Conservative Party came in first place but lost the majority it had after winning 331 seats in the 2015 election. The Labour Party came in second place, outperforming most expectations by winning 262 seats, a gain of 30.

[1] From 2010 to 2015, then-Prime Minister David Cameron led a coalition government of the Conservative Party and the Liberal Democrats, the United Kingdom's (UK's) first governing coalition since World War II.

This result was not what Prime Minister May had in mind in April 2017 when she reversed her earlier assertions and unexpectedly announced a snap election shortly after opening the two-year window for negotiating the UK's exit from the EU (commonly termed *Brexit*). At that time, polls showed a 20-point Conservative lead over the Labour Party, and May expected both to solidify her political mandate for the negotiations with an expanded majority and gain two years in the electoral calendar in which to manage the withdrawal process (by pushing the next general election back from 2020 to 2022).

Polls showed the lead shrinking as the vote neared, however. Prime Minister May sought to portray her leadership as the only choice for preserving stability and delivering Brexit, but some observers criticized her campaign as dull and uninspiring.[2] Many observers also interpreted the result as a reflection of voter unease about Brexit and the government's approach to the negotiations, pointing especially to higher turnout among young voters (who largely oppose Brexit).[3] The Labour Party was relatively effective in focusing on concerns about proposed Conservative social and economic policies, to the extent that some voters seemingly overcame previous doubts about Labour Party leader Jeremy Corbyn, often derided as radically left-wing.[4]

Table 1. June 2017 UK General Election Results

Party	# of Seats	Net # of Seats +/–	% of Vote
Conservatives	318	-13	42.4%
Labour	262	+30	40.0%
Scottish National Party	35	-21	3.0%
Liberal Democrats	12	+4	7.4%
Democratic Unionist Party	10	+2	0.9%
UK Independence Party	0	-1	1.8%
All Others	13	-1	4.5%

Source: "Election 2017 Results," BBC News, at http://www.bbc.com/news/election/2017/results.

Note: Turnout was 68.7%.

Prime Minister May was able to form a Conservative minority government after concluding a deal for support from the Democratic Unionist Party (DUP), the largest unionist political party in Northern Ireland, which holds 10 seats in Parliament. The arrangement is not a formal coalition but rather a "confidence and supply" arrangement that allows the DUP certain concessions in return for its support in passing the budget and backing the government in any no-confidence votes. Legislation typically is supported on a case-by-case basis, potentially granting the DUP a pivotal role in determining the fate of certain bills.

The DUP is one of the UK's most socially conservative parties, and it campaigned strongly in favor of Brexit. (Nearly 56% of voters in Northern Ireland supported remaining in the EU.) Since 2007, the DUP has led Northern Ireland's devolved regional government in a power-sharing

[2] See, for example, "Theresa May Must Go," *National Review*, June 10, 2017, at http://www.nationalreview.com/article/448520/theresa-may-must-go.

[3] Saphora Smith, "U.K. Election 2017: Youth Turnout Hits May, Boosts Corbyn," *NBC News*, June 9, 2017, at https://www.nbcnews.com/news/world/u-k-election-2017-youth-turnout-hits-may-boosts-corbyn-n770186.

[4] See, for example, Jon Stone, "Jeremy Corbyn Tells Theresa May To Reveal 'Dementia Tax' Rate Before Election," *The Independent*, June 3, 2017, at http://www.independent.co.uk/news/uk/politics/jeremy-corbyn-dementia-tax-theresa-may-general-election-2017-rate-charge-a7771021.html.

arrangement with Irish nationalist party Sinn Fein, and it remains engaged with Sinn Fein in talks to reestablish the devolved government following regional elections in March 2017.[5] The Conservatives granted the DUP more budgetary resources for Northern Ireland as a key part of the two parties' parliamentary support deal, and the DUP remains a significant factor in Brexit negotiations related to Northern Ireland.

Other notable outcomes from the June 2017 election included the following:

- After gaining 50 seats in the 2015 election, the Scottish National Party (SNP) suffered the loss of 21 seats. The result dealt a blow to the aspirations of some SNP leaders for a second vote on Scottish independence following the 2014 referendum, which favored staying in the UK.
- After positioning themselves as the most pro-Remain party in the Brexit debate, the Liberal Democrats made modest gains, from 8 seats to 12.
- The Conservatives' losses occurred despite making inroads in Scotland and gaining vote share from the collapse of the populist, anti-EU UK Independence Party (UKIP). Labour also benefitted from an unexpected return of UKIP voters in some parts of England.

Brexit Background

Nearly 52% of British voters in the June 2016 referendum on EU membership answered that the UK should leave the EU. Factors such as economic dissatisfaction, unease with globalization and immigration, and antielite or antiestablishment sentiments played key roles in the referendum outcome. The vote was the culmination of a decades-long debate in the UK about the country's EU membership, however.

Fearing a loss of national sovereignty and influence, the UK stood aside in the 1950s when the six founding countries (Belgium, France, Italy, Luxembourg, Netherlands, and West Germany) launched the first steps of European integration. The UK joined the precursor of the modern-day EU in 1973, largely to derive the economic benefits of membership but also to have a political voice on the inside as integration took shape.

Nevertheless, historically many British leaders and citizens (perhaps most notably including former Prime Minister Margaret Thatcher) have been skeptical about the EU, and the relationship between London and Brussels often has been marked by ambivalence. The UK "opted out" of several major elements of European integration, such as the euro currency and the passport-free Schengen Area. British "euro-skeptics" have frequently expressed frustration that the EU tends to focus too much on internal treaties and process rather than taking a pragmatic approach to priorities such as boosting economic competitiveness, promoting a common energy policy, or improving European defense capabilities.

Focus on Brexit

Overall, Brexit remains the predominant issue in UK politics, and withdrawal negotiations with the EU are set to remain the UK government's top concern. With the clock ticking on a presumed exit in March 2019, Prime Minister May has sought to manage an intense debate about what Brexit should look like, pitting a desire for continued market access and free trade with the EU

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

against demands to sharply curtail inward migration and the EU's ability to affect decisionmaking in the UK.

The strategy put forth by the government in February 2017 opted for a "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.[6] The strategy indicated that the UK would attempt to negotiate a free trade agreement with the EU to secure as much access to the EU market as possible. Emboldened by the result of the June 2017 election, however, advocates of a "soft Brexit" strategy have continued to urge that the UK retain at least some elements of membership in the EU single market and agree to a multiyear transition period to smooth out shock effects from the withdrawal.

Divisions over these differing viewpoints toward Brexit run through Parliament and the British public, but also through the Conservative Party and Prime Minister May's Cabinet. The "divergers," led by Foreign Secretary Boris Johnson, Environment Secretary Michael Gove, "Brexit Secretary" David Davis, and Secretary for International Trade Liam Fox, and numbering many Conservative MPs, continue to push for the government to deliver a hard Brexit. The "aligners," led by Chancellor Philip Hammond and Home Secretary Amber Rudd and comprising pro-EU MPs, continue to argue for maintaining closer ties with the EU. With her leadership weakened after the June 2017 election, many observers question how Prime Minister May can deliver a Brexit deal that satisfies both viewpoints. The tasks of managing Brexit-related tensions and disagreements within her own party, heading off rebellions from one side or the other, and finding potential areas of compromise are likely to be central challenges for the prime minister in 2018.

In December 2017, the government suffered a defeat when Parliament voted (309-305, with 11 Conservative MPs defecting) in favor of an amendment to the government's EU Withdrawal Bill requiring that any Brexit deal be approved by a separate act of Parliament before it can be implemented. The government had promised a "meaningful vote" in Parliament on the withdrawal agreement, but some MPs feared the bill's language allowed ministers too much power to implement statutory changes without parliamentary approval. Advocates of a softer Brexit applauded passage of the amendment in the hopes that it would grant them greater influence over the government's approach to the withdrawal.

In any case, while the Brexit issue overshadows most aspects of British politics, Prime Minister May faces other domestic challenges. The country's National Health Services (NHS) have been severely strained by a capacity crisis during the winter of 2017-2018, pressuring the government to make plans for increasing resources and improving the performance of the UK's health sector. Having implemented an overarching program of domestic spending cuts, the Conservative Party also faces growing calls for a new definition of what it stands for in order to counter voters' receptiveness to the antiausterity messages of Jeremy Corbyn and the Labour Party.

Brexit Negotiations and Relations with the EU

On March 29, 2017, Prime Minister May invoked Article 50 of the Treaty on European Union, formally giving notice of the UK's intention to leave the EU and opening a two-year window for conducting withdrawal negotiations. The UK named as its lead negotiator David Davis, holding the newly created position of Secretary of State for Exiting the European Union. The European

[6] HM Government, Department for Exiting the European Union, *The United Kingdom's Exit From, And New Partnership With, The European Union*, February 2, 2017, at https://www.gov.uk/government/publications/the-united-kingdoms-exit-from-and-new-partnership-with-the-european-union-white-paper.

Commission (the EU's executive institution) serves as the EU's negotiator, with Michel Barnier, a former EU commissioner for financial services and former French foreign minister, leading talks for the EU.

The EU's negotiating guidelines adopted at the leaders' summit in Brussels in April 2017 presented a two-phase approach to the talks.[7] The first phase would deal with the terms of a withdrawal agreement, focusing initially on three priority topics: the status and rights of EU citizens living in the UK and UK citizens living in the EU, a financial settlement addressing remaining UK obligations to the EU, and arrangements for the border between Northern Ireland and the Republic of Ireland.

Given sufficient progress on these topics, the second phase would discuss possible transitional arrangements and the framework for future relations between the UK and the EU. This issue of "sequencing" became an early point of tension in the negotiations, as the EU resisted opening negotiations on its future economic and trade relationship with the UK until at least some of the main terms of withdrawal had been agreed.

Throughout 2017, continued discord in the UK about the desired shape of Brexit fueled criticism from EU officials and outside observers that a lack of clarity and unity on the British side had hindered the progress of withdrawal negotiations. The UK government pushed back against such charges, noting that it has produced a series of position papers detailing its approach to numerous items on the negotiating agenda.[8]

After seven months and six rounds of discussions, the two sides reached an agreement in principle covering main aspects of the three priority topics and released a joint report on December 8, 2017, that describes their common understanding and joint commitments. With some specific aspects yet to be finalized, the report notes that "nothing is agreed until everything is agreed," and that joint commitments "shall be reflected in the Withdrawal Agreement in full detail."[9]

On December 15, 2017, the European Council determined that sufficient progress had been made on the three priority topics to open the second phase of negotiations, dealing with the transition period and framework for future relations.[10] EU leaders stated that the second phase would proceed as long as the commitments made in phase one are fully respected, and they called for continued progress on unresolved issues related to withdrawal arrangements and for the negotiators to begin drafting the withdrawal agreement.

The European Commission released the text of its draft withdrawal agreement (totaling 118 pages) on February 28, 2018.[11] Some observers noted that the document represented a maximalist

---

[7] See European Council, *European Council (Art. 50) Guidelines for Brexit Negotiations,* April 29, 2017, at http://www.consilium.europa.eu/en/press/press-releases/2017/04/29-euco-brexit-guidelines/.

[8] See Department for Exiting the European Union, *Article 50 and Negotiations with the EU,* June 18, 2017, at https://www.gov.uk/government/collections/article-50-and-negotiations-with-the-eu.

[9] Joint Report from the Negotiators of the European Union and the United Kingdom Government on Progress During Phase 1 of Negotiations Under Article 50 TEU on the United Kingdom's Orderly Withdrawal from the European Union, December 8, 2017, at https://ec.europa.eu/commission/sites/beta-political/files/joint_report.pdf.

See also Eva-Maria Poptcheva and Carmen Cristina Cirlig, *The Brexit process: Moving to the second phase of negotiations*, European Parliament Research Service, December 2017, at http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/614645/EPRS_BRI(2017)614645_EN.pdf.

[10] European Council, *European Council (Art. 50) meeting - Guidelines*, December 15, 2017, at http://www.consilium.europa.eu/media/32236/15-euco-art50-guidelines-en.pdf.

[11] European Commission, Task Force for the Preparation and Conduct of the Negotiations with the United Kingdom

presentation of the EU's positions and that numerous provisions would be rejected by the UK government.[12]

Citizens' Rights

The EU initially proposed that EU nationals living in the UK (approximately 3 million people) and UK citizens living in EU countries (approximately 1 million people) on the withdrawal date retain for life their rights under EU law, as interpreted by the European Court of Justice (ECJ), including the ability to acquire permanent resident status. The UK initially proposed that EU free movement rights would not carry over after withdrawal, meaning that EU citizens resident in the UK at the time of withdrawal would need to apply for a new immigration status.

The outcome reflected in the December joint report was much closer to the original EU position. According to the joint report, EU and UK citizens will continue to have the right of free movement until the withdrawal agreement takes effect (possibly on March 29, 2019). Anyone arriving before that date would retain the right to stay; to apply for permanent residency ("settled status"); and to receive equal treatment with regard to employment, education, health care, social benefits, and rights of family reunification (not extended to future spouses/partners). In the UK, the rights of such individuals would be guaranteed in law and enforced by British courts, with regard for relevant ECJ rulings and the possibility of requesting ECJ interpretations.[13]

The draft withdrawal agreement pushed these conditions further, proposing that EU citizens arriving legally in the UK before the end of the post-withdrawal transition period (possibly lasting to December 31, 2020) would have the right to "settled status" and extending family reunification rights to cover future partners. The draft withdrawal agreement also asserted that UK citizens given the right to reside in one EU country would not automatically have the right to move and settle in another EU country.

Citizens' advocacy groups assert that a lack of clarity remains about many questions, including whether and how individuals would need to register in order to qualify or claim their rights.[14]

Financial Settlement

The "divorce bill" quickly became one of the most contentious subjects of the negotiations, with hard-line advocates of Brexit insisting that the UK pay nothing and sources in the EU suggesting a figure as high as €100 billion (approximately $124 billion).

Although it does not specify a figure, the agreement set out in the December joint report and reflected in the draft withdrawal agreement suggests that the total cost to the UK is likely to be about €40-€45 billion (approximately $49-$56 billion). The agreement includes the UK's share of implementing the EU's budget through the end of 2020 (the EU's current budget framework covers 2014-2020), other EU financial commitments and liabilities incurred before the end of

---

under Article 50 TEU, *European Commission Draft Withdrawal Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community*, February 28, 2018, at https://ec.europa.eu/commission/publications/draft-withdrawal-agreement-withdrawal-united-kingdom-great-britain-and-northern-ireland-european-union-and-european-atomic-energy-community_en.

[12] David M. Herszenhorn and Annabele Dickson, "Michel Barnier attempts to jolt UK into Brexit action," *politico.eu*, February 28, 2018, at https://www.politico.eu/article/michel-barnier-attempts-to-jolt-uk-into-brexit-action/.

[13] European Commission, *Joint Technical Note TF50 (2017) 20 - Commission to EU27*, December 8, 2017, at https://ec.europa.eu/commission/sites/beta-political/files/citizens_rights_-_comparison_table.pdf.

[14] "Brexit: The Rights of EU Citizens in the UK and Britons in the EU," *BBC News*, November 8, 2017, at http://www.bbc.com/news/uk-politics-42279408.

2020, and future pensions owed to British EU civil servants, minus the return of UK capital and assets from certain EU institutions and programs. Although the exact schedule and methodology remains to be detailed, costs are to be paid in euros and as they fall due, rather than in advance or in a lump sum.

Northern Ireland

Northern Ireland and the border between Northern Ireland and the Republic of Ireland have become a complicated sticking point in the Brexit negotiations. Some observers initially expressed concerns that Brexit could result in the reestablishment of a harder border to collect customs tariffs and halt EU nationals who would no longer have the right of free movement into the UK. Such border controls would not apply to Irish citizens because the UK and Ireland maintain a separate common travel area agreement, but the prospect of a harder border raised warnings that it could harm Northern Ireland's economy and destabilize the peace process. All parties have been eager to avoid such an outcome, and have sought to negotiate a special arrangement for Northern Ireland in recognition of its unique circumstances.[15]

In the December joint report, the EU and the UK commit to protecting and upholding all parts of the 1998 Good Friday Agreement that brought an end to decades of sectarian conflict, created the Northern Ireland Assembly, and established institutional arrangements for cross-border cooperation (see CRS Report RS21333, *Northern Ireland: Current Issues and Ongoing Challenges in the Peace Process*, by Kristin Archick). The UK commits to avoiding a hard border, including the establishment of physical infrastructure for checks or controls, and to protecting North-South cooperation. The separate common travel area between the UK and Ireland is to continue operating, without affecting Ireland's obligations regarding the free movement of EU citizens under EU law. The people of Northern Ireland will retain the right to choose Irish or British citizenship, or both, and those who are Irish citizens will continue to have the rights of EU citizens.

Besides considerable uncertainty about how a "soft" or "invisible" border would work with respect to immigration controls and customs enforcement, some analysts note that language in the joint report is "prone to contradictory interpretations" with regard to a hard border and the broader UK-EU relationship.[16] Recognizing that North-South cooperation "relies to a significant extent on a common European Union legal and policy framework," the UK intends to protect such cooperation and avoid a hard border "through the overall EU-UK relationship." If this is not possible, the UK "will propose specific solutions," and "[i]In the absence of agreed solutions, the United Kingdom will maintain full alignment with those rules of the Internal Market and the Customs Union which, now or in the future, support North-South cooperation, the all-island economy and the protection of the 1998 agreement."[17]

At the same time, to satisfy an intervention late in the negotiations by the DUP, which strongly opposes any special status for Northern Ireland, "the United Kingdom will ensure that no new regulatory barriers develop between Northern Ireland and the rest of the United Kingdom," unless agreed to by the Northern Ireland Executive and Assembly, and "the United Kingdom will

[15] For the UK's starting position, see Northern Ireland Office and Department for Exiting the European Union, *Northern Ireland And Ireland – A Position Paper*, August 16, 2017, at https://www.gov.uk/government/publications/northern-ireland-and-ireland-a-position-paper.

[16] Poptcheva and Cirlig, pp. 9.

[17] *Joint Report from the Negotiators of the European Union and the United Kingdom Government,* pp. 47, 49.

continue to ensure the same unfettered access for Northern Ireland's businesses to the whole of the United Kingdom internal market."[18]

Some experts argue that if Northern Ireland is to remain fully aligned with both the EU and the UK, then logic suggests that the UK would proceed down the path of soft Brexit, ending in a Norway-style relationship with the EU where the UK remains a member of the single market and the customs union.[19] This conclusion is not shared by the British government, however. In a letter of "Commitments to Northern Ireland," released parallel to the joint report, the prime minister reiterated that there would be no hard border, no barriers between Northern Ireland and the rest of the UK, maintenance of the common travel area, and protection of the Good Friday Agreement and North-South cooperation, but the whole of the UK, including Northern Ireland, would leave the EU single market and customs union and would no longer be subject to the jurisdiction of the ECJ.[20]

The EU's draft withdrawal agreement subsequently proposed that Northern Ireland would effectively remain part of the EU customs union and common regulatory area, but the rest of the UK would not. Prime Minister May reiterated that such an arrangement is unacceptable to her government.[21]

Phase Two

The European Council's statement of December 15, 2017, on phase two of the negotiations called on the UK to clarify its positions regarding the future relationship. Prime Minister May outlined her vision in a speech on March 2, 2018, asserting that she wants "the broadest and deepest possible partnership—covering more sectors and co-operating more fully than any Free Trade Agreement anywhere in the world today."[22]

The prime minister called for a custom tailored economic relationship with the EU rather than the UK choosing from an existing model such as Canada (free trade agreement) or Norway (a member of the single market/European Economic Area), or simply trading with the EU on World Trade Organization (WTO) terms. She asserted that "[t]he fact is that every Free Trade Agreement has varying market access depending on the respective interests of the countries involved. If this is cherry-picking, then every trade arrangement is cherry-picking."

She additionally spoke of a border that is as "frictionless as possible," no new tariffs or quotas, a "comprehensive system of mutual recognition" in terms of regulatory standards, and a customs partnership or "highly streamlined customs arrangement" that also would include a "mechanism

---

[18] *Joint Report from the Negotiators of the European Union and the United Kingdom Government,* ¶50.

[19] See, for example, Douglas A. Rediker, *The Brexit options, explained*, Brookings Institution, January 5, 2018, at https://www.brookings.edu/blog/order-from-chaos/2018/01/05/the-brexit-options-explained/, Jacob Funk Kirkegaard, *Britain Opts For "Brexit In Name Only",* Peterson Institute for International Economics, December 11, 2017, at https://piie.com/blogs/realtime-economic-issues-watch/britain-opts-brexit-name-only and Paul Taylor, *"May's Divorce Deal Doesn't Add Up," Politico*, December 8, 2017, at https://www.politico.eu/article/theresa-may-brexit-divorce-deal-doesnt-add-up/.

[20] Office of the Prime Minister, *Commitments to Northern Ireland*, December 8, 2017, at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/665870/prime-ministers-commitments-to-northern-ireland.pdf.

[21] Office of the Prime Minister, *PM speech on our future economic partnership with the European Union*, March 2, 2018, at https://www.gov.uk/government/speeches/pm-speech-on-our-future-economic-partnership-with-the-european-union.

[22] Ibid.

so that the UK would also be able to apply its own tariffs and trade policy for goods intended for the UK market." The prime minister also called for a new independent arbitration mechanism, not the ECJ, to resolve disputes.

Draft guidelines subsequently published by European Council President Donald Tusk indicated that with the UK out of the single market and customs union, the EU considers such an ambitious trade and economic relationship as unrealistic.[23] The draft suggested the possibility of a free trade agreement that avoids tariffs and quotas but has only limited coverage of services (including financial services) and less potential for regulatory cooperation and mutual recognition of standards. EU leaders are expected to adopt formal negotiating guidelines for phase two at a summit on March 22, 2018.

Additional Issues and Considerations

While negotiating the dimensions of the future UK-EU trade and economic relationship likely will consume considerable time and attention, aspects of the three priority issues discussed above and an extensive list of other issues remain to be fleshed out and resolved in the withdrawal agreement and transition arrangements. Examples of such issues include transition arrangements for the UK's exit from free trade agreements with both the EU itself and with third countries; transfer of regulatory responsibilities, including for the financial services sector, agriculture, fisheries, and nuclear safeguards; the status of intellectual property, data protection, and contracts drawn up in the UK under EU law prior to withdrawal; and access to aviation and energy markets.

The negotiations also are expected to address issues related to security cooperation, including judicial and law enforcement cooperation (for example, cross-border security arrangements and access to information-sharing databases), as well as a framework for partnership in areas such as counterterrorism, international crime, defense, and foreign policy (including sanctions).

The remaining 27 member states will decide where to resettle the two EU agencies located in the UK, and the negotiators are expected to seek arrangements facilitating the transfer. (The agencies are the European Medicines Agency, which approves and monitors drug safety and has 900 staff, and the European Banking Authority, which coordinates EU banking rules and has 160 staff.)

The withdrawal agreement must be approved by both sides. EU approval requires a qualified majority vote in the Council of the EU (equivalent to agreement by 20 out of 27 remaining member states, representing 65% of the population) and a simple majority in the 751-member European Parliament. In the UK, both Houses of Parliament (Commons and Lords) will vote on whether to accept the withdrawal agreement as negotiated or move ahead with no deal. (A free trade deal or other arrangement for the framework of UK-EU economic relations is expected to be a separate agreement that would be concluded after withdrawal and voted on at a later date.)

Numerous observers have suggested that withdrawal negotiations should be completed by October 2018 if both sides are to have time to complete their respective approval procedures by March 2019. If no agreement is reached within the two-year window, the EU could decide to extend the negotiating period, but consensus would be required to do so—any one of the 27 remaining members could veto an extension.

A transition period in which to implement the terms of withdrawal is likely to last about two years (probably to the end of 2020). During such a transition period, the UK is likely to remain subject

[23] See *European Council (Art. 50) (23 March 2018) - Draft guidelines*, March 7, 2018,at https://www.euractiv.com/wp-content/uploads/sites/2/2018/03/European-council-Art.50-23-March-2018-Draft-Guidelines.pdf.

to EU rules governing trade policy and the single market without having voting representation in the EU institutions that shape those rules. The EU's draft withdrawal agreement states that the ECJ would continue to have jurisdiction in the UK throughout the transition period on issues covered by the EU treaties and that the ECJ would serve as the authority for interpreting the withdrawal agreement and ruling on matters of compliance.

Both sides remain focused on achieving an orderly withdrawal agreement, but some observers suggest that given the pace and dynamics of the negotiations thus far, there is a possibility of a "no deal" scenario for March 2019, in which the UK "crashes out" of the EU without comprehensive exit and transition arrangements. Although some of the strongest supporters of leaving the EU view such as scenario as relatively unproblematic and potentially desirable, many analysts suggest it might entail substantial and uncertain consequences with regard to business, trade, regulatory issues, citizens' rights, and other areas.[24]

In the meantime, the UK government has introduced in the House of Commons the European Union (Withdrawal) Bill (also commonly referred to as the Great Repeal Bill). This legislation would repeal the European Communities Act of 1972 (the domestic legislation that gives EU law effect in the UK) and convert all EU law into UK law to prevent a legal "black hole" following the UK's departure from the EU.[25] The UK would then decide on its own timetable what parts of EU law to keep or change going forward.

The UK has emphasized a desire both to preserve the trade arrangements it currently has through EU agreements with approximately 60 countries by transitioning the deals to a bilateral basis and to negotiate new trade agreements with other international partners. The UK also has expressed intentions to replicate the EU schedules of commitments in the World Trade Organization "as far as possible."[26] The UK government has not conducted trade negotiations at the national level since transferring competence over a common commercial policy to the EU in 1973, but it has been building up the capacity of a new Department for International Trade that was created in the Foreign and Commonwealth Office. The UK would be able to formally negotiate trade deals only after it has withdrawn from the EU and may not be able to conclude any such agreements until after any transition period has ended.

Overall, an analysis by *The Financial Times* found that after withdrawing from the EU, the UK's bureaucratic capacity will be tested by the need to renegotiate 759 separate international agreements with over 160 countries (including 295 agreements related to trade, 202 on regulatory cooperation, 69 on fisheries, 65 on transport, 49 on customs, 45 on nuclear issues, and 34 on agriculture).[27]

[24] Chris Morris, "Brexit: What Would 'No Deal' Look Like?," *BBC News*, October 14, 2017, at http://www.bbc.com/news/uk-politics-39294904.

[25] See *European Union (Withdrawal) Bill 2017-2019*, at https://services.parliament.uk/bills/2017-19/europeanunionwithdrawal.html and *Explanatory Notes to the Bill*, at https://publications.parliament.uk/pa/bills/cbill/2017-2019/0005/18005.pdf.

[26] See Prime Minister's Office and Department for International Trade, *Preparing for our Future UK Trade Policy*, at https://www.gov.uk/government/publications/preparing-for-our-future-uk-trade-policy/preparing-for-our-future-uk-trade-policy.

[27] "After Brexit: The UK Will Need to Renegotiate At Least 759 Treaties," *The Financial Times*, May 30, 2017.

Brexit, Austerity, and the UK Economy

Many economists have expressed concerns that Brexit could cause an economic shock that leaves the UK facing weaker economic growth, higher inflation, job losses, and depreciation of the pound (which has already happened), with potentially significant negative consequences for the U.S. and global economies.[28] Advocates of Brexit have maintained that such economic fears are greatly exaggerated and that, free from EU regulations, a "Global Britain" will be able to forge new trade relationships with dynamic, emerging economies while remaining a preeminent international banking and financial center. The UK economy has been relatively resilient thus far, with growth of 1.8% in 2017 and an expected 1.5% in 2018, outperforming many expectations. Unemployment has remained low, at 4.4% in 2017.[29]

UK Economy: Overview and Basic Facts

Population: approximately 65.65 million

Gross Domestic Product (PPP): $2.88 trillion; per capita GDP is $43,600

The **service sector** accounts for approximately 80% of the UK's GDP.

Trade with the EU: In 2016, 43% of the UK's goods and services exports went to EU member countries and 53.8% of imports came from EU member countries.

Top 5 Export Destinations: United States, Germany, France, Netherlands, Ireland

Top 5 Import Sources: Germany, China, United States, Netherlands, France

Sources: *CIA World Factbook*, UK Office for National Statistics.

In any case, observers have noted considerable unease among some of the many multinational corporations that have chosen the UK as their EU headquarters; these corporations face a period of uncertainty about the UK's trade and economic arrangements and the corresponding legal and regulatory frameworks. The uncertainty and potential risks of Brexit have led some such large companies to make plans, or to consider making plans, for moving their EU base, along with attendant jobs and capital, elsewhere. Of particular consequence, with half of the world's financial firms basing their European headquarters in London and employing 1 million people, is the loss of the UK's EU "passporting" rights, whereby a financial company incorporated in one member state can carry out activities in all other member states without establishing a separate entity or obtaining a separate authorization.[30]

The signature initiative of the Conservative-led coalition government that took office in 2010 was a far-reaching austerity program aiming to reduce the country's budget deficit. Their victory in the 2015 election allowed the Conservative Party to continue implementing this program as the centerpiece of their domestic economic policy.

Between 1993 and 2008, the British economy enjoyed an unprecedented period of sustained growth. However, the country was severely impacted by the global financial crisis and entered a deep recession in 2008, and a prolonged slump lasted until 2012. During the years of economic expansion, the UK developed a large structural budget deficit as spending outpaced tax revenues and growth. The financial crisis and recession exacerbated this situation: the government budget deficit grew from 5% of gross domestic product (GDP) in 2008 to nearly 11% in 2009. Public sector debt has increased from approximately 52% of GDP in 2008 to approximately 88%.

[28] For more information, see CRS Report R44559, *Economic Implications of a United Kingdom Exit from the European Union*, by James K. Jackson, Shayerah Ilias Akhtar, and Derek E. Mix.

[29] Economic statistics are from Economist Intelligence Unit, *Country Report: United Kingdom*, March 2018.

[30] European Parliament Directorate-General for Internal Policies, *Brexit: The United Kingdom and EU Financial Services*, December 9, 2016, at http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/587384/IPOL_BRI%282016%29587384_EN.pdf.

In response to these trends, the coalition government began a program of budget austerity entailing large spending cuts in areas such as governmental department expenditures and a range of social welfare benefits. It also increased the value added tax (VAT), capital gains tax, and national insurance contributions. The austerity strategy has gradually reduced the budget deficit, to 4.3% of GDP in 2015 and 2.9% in 2017.

Supporters have praised the austerity strategy as necessary to put the UK back on the path of financial sustainability. Opponents have argued that the government's approach is ideologically driven, unduly targets the poor and the disabled, and affects society in ways that are unequal and unfair. Critics also have charged that the austerity measures have been too aggressive, hurt the economy's growth prospects, and eroded public services. The UK's most recent budget moderately loosened fiscal policy, with more spending to support the NHS and to address some issues in education, the housing market, and social welfare programs.

U.S.-UK Relations

Political Relations

The UK's "special relationship" with the United States has been a cornerstone of British foreign policy, to varying degrees and with some ups and downs, since the 1940s. The UK is often perceived to be the leading allied voice in shaping U.S. foreign policy debates, and observers assert that the UK's status as a close ally of the United States has often served to enhance its global influence. British support, in turn, has often helped add international credibility and weight to U.S. policies and initiatives, and the close U.S.-UK partnership has served common interests in bodies such as the U.N., NATO, and other multilateral institutions.

The UK continues to look to the United States for close partnership and has sought to reinforce its U.S. ties following Brexit. President Trump appears to have a largely positive view of the UK as well, but there have been points of tension and uncertainty in the relationship over the past year, arising on the UK side over both the substantive nature of some of the Trump Administration's policies and because of some of President Trump's statements and tweets. In a postelection phone call with Prime Minister May, President Trump reportedly spoke about the importance of the relationship and his close personal connections to the UK. Having expressed early on his strong support for Brexit and ambivalence about the future of the EU, President Trump has repeatedly indicated he favors reaching a U.S.-UK free trade agreement quickly. Some Members of Congress also have backed negotiating a free trade agreement with the UK.[31] Although the UK cannot formally negotiate trade agreements until it leaves the EU, some suggest that positive indications of a likely future agreement with the United States could help bolster the UK's position in negotiations with the EU on the terms of Brexit and the UK's post-Brexit economic relationship with the EU.

Prime Minister May was the first foreign leader to visit President Trump following his inauguration. Despite considerable negative sentiment toward Trump in the UK, she has sought to portray the UK's relationship with the United States as a source of stability in the context of Brexit, and she extended an early invitation for President Trump to make a state visit to the UK.

President Trump and Prime Minister May have proceeded from relatively compatible starting points on issues such as counterterrorism, combating the Islamic State, and seeking to end the

[31] See CRS Report R44817, *U.S.-UK Free Trade Agreement: Prospects and Issues for Congress*, by Shayerah Ilias Akhtar.

conflict in Syria. In contrast, President Trump has expressed opposition to the Iran nuclear deal (and has not certified Iran's compliance with the deal) and announced the planned U.S. withdrawal from the Paris climate agreement, both of which are supported by the UK government. Given initial skepticism from President Trump about NATO, Prime Minister May has consistently sought to convey that the alliance remains central to European security and the deterrence of Russian aggression, while cautioning against potential overtures to Russian President Vladimir Putin. 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."[32] She also expressed "deep concern" about the President's plan announced in March 2018 to introduce tariffs on steel and aluminum imports to the United States.[33]

As the UK government seeks to forge a mutually beneficial partnership, President Trump remains a highly controversial figure in the UK, and many in the UK have criticized Prime Minister May's outreach. Numerous British politicians, including Prime Minister May, spoke out against Trump during the U.S. election campaign, and in January 2016 Members of Parliament debated whether Trump should be banned from the UK due to statements he made during the campaign (although Parliament did not decide to do so). In response to domestic critics of her outreach to the Trump Administration, Prime Minister May asserted that, "It is the special relationship that allows us to say when something is unacceptable. Whenever there is something I find unacceptable, I won't be afraid to say that to Donald Trump."[34]

Several incidents during President Trump's first year in office generated a backlash in the UK. In March 2017, UK officials categorically rejected accusations repeated by the White House that the UK's Government Communications Headquarters (GCHQ, the UK's signals intelligence agency, comparable to the U.S. National Security Agency, or NSA) had helped the Obama Administration "wiretap" Trump Tower during the U.S. election campaign. President Trump also renewed a public feud with London Mayor Sadiq Khan, an exchange that began over then-candidate Trump's 2015 call for a ban on Muslims entering the United States and continued with Trump criticizing Khan's reaction to the June 2017 terrorist attack in London. In November 2017, President Trump was rebuked by Prime Minister May and numerous other British politicians for retweeting anti-Muslim videos posted by a far-right British group. Although President Trump initially pushed back against May's criticism, he later offered to apologize, saying he had known nothing about the group at the time.[35]

A date for President Trump's state visit has not been officially set, leading to considerable media speculation. Among other factors, numerous sources have reported that he does not wish to go if there are large-scale protests against him.[36] In January 2018, President Trump canceled a planned working visit in February 2018 to open the new $1.2 billion U.S. embassy in London, objecting

[32] Prime Minister's Office, *PM Statement On US Decision To Move Embassy To Jerusalem*, December 6, 2017, at https://www.gov.uk/government/news/pm-statement-on-us-decision-to-move-embassy-to-jerusalem-6-december-2017.

[33] 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, at https://www.telegraph.co.uk/politics/2018/03/04/theresa-may-tells-donald-trump-deep-concern-plans-us-tariffs/.

[34] "Theresa May 'Won't Be Afraid' To Challenge Donald Trump," *BBC News*, January 22, 2017, at http://www.bbc.com/news/uk-politics-38710697.

[35] Guy Faulconbridge, "Trump Says He 'Would Apologize' for Sharing British Far-Right Videos," *Reuters*, January 26, 2018.

[36] See, for example, Glenn Thrush, "Trump May Not Visit U.K. This Year As Planned," *The New York Times*, June 11, 2017.

that the embassy was a "bad deal" at an "off location" in the city.[37] Later in the month, he indicated that he planned to visit the UK at least once in 2018, with the official state visit potentially taking place in October 2018.

The cancellation of the February working visit led some observers, including UK Foreign Secretary Boris Johnson, to express concerns that opposition to Trump in the UK was endangering the U.S.-UK relationship. At a meeting with Prime Minister May at the World Economic Forum in Davos, Switzerland, in January 2018, however, President Trump called reports of a falling out between the two leaders a "false rumor," asserting that the U.S.-UK relationship was as "strong as it had ever been," and that the two countries remain "joined at the hip" when it comes to military cooperation.[38]

Security and Defense Relations

The United Kingdom and the United States have a particularly close defense relationship and a unique intelligence-sharing partnership. U.S. defense planners have long viewed the UK as one of the most capable European allies—if not *the* most capable, alongside France—in terms of well-trained combat forces and the ability to deploy them. Observers note that the United States and the UK have long tended to have similar outlooks on issues such as the use of force, the development of military capabilities, and the role of NATO.

UK leaders have emphasized their continued commitment as a leading country in NATO, and the UK has taken a strong role in efforts to deter Russian aggression. As part of NATO's "enhanced forward presence," the UK leads a multinational battalion in Estonia with 800 troops, augmented in 2018 by 200 troops from Denmark (France served as the partner nation in 2017).[39] The unit is based in Tapa, about 100 miles from the Russian border. The UK additionally contributes 130 troops to the U.S.-led multinational battalion in Poland. During 2017, the UK was the lead nation in NATO's Very High Readiness Joint Task Force (VJTF), the land component of the enhanced NATO Response Force (eNRF), with about 3,000 personnel assigned to the effort.

UK armed forces also participate in U.S.-led coalition efforts against the Islamic State in Iraq and in Syria, including with airstrikes (by Typhoon and Tornado aircraft, and unmanned Reaper drones), as well as surveillance, intelligence gathering, logistical support, and training Iraqi forces.

The UK hosts about 8,700 U.S. military personnel as well as airbases, equipment, radar sites, and intelligence centers. As part of its cost-saving European Infrastructure Consolidation review, the U.S. Department of Defense announced in 2015 that U.S. personnel would pull out of three leased UK airbases (RAF Mildenhall, which serves as a hub for reconnaissance and tanker aircraft and special operations, RAF Alconbury, and RAF Molesworth) and move to other locations in the UK and Germany. Subsequent reports suggest that full U.S. divestment from these bases, originally planned for 2022, might not occur until 2024. Facilities of the Joint Intelligence Analysis Complex are being relocated from Molesworth and consolidated in a new Joint Intelligence Analysis Center at RAF Croughton, home to a large military communications

[37] Karla Adam and Jennifer Hassan, "Trump Blames 'Bad Deal' For London Trip Cancellation. But Brits Think They Scared Him Away.," *The Washington Post*, January 12, 2018.

[38] Jack Maidment, "Donald Trump Dismisses Reports Of Rift With Theresa May As "False Rumour"," *The Daily Telegraph*, January 25, 2018, at http://www.telegraph.co.uk/politics/2018/01/25/donald-trump-dismisses-reports-rift-theresa-may-false-rumour/.

[39] Also as part of NATO's Enhance Forward Presence, the United States leads a multinational battalion in Poland, Canada leads in Latvia, and Germany leads in Lithuania.

facility.[40] The U.S. Air Force plans to increase personnel at RAF Lakenheath, the largest U.S. base in the UK with approximately 5,500 personnel and home to an F-15 fighter wing, in anticipation of basing two squadrons of F-35s there by 2020.

A 1958 U.S.-UK Mutual Defense Agreement established unique cooperation with regard to nuclear weapons, allowing for the exchange of scientific information and nuclear material. Additionally, since the signing of the 1963 U.S.-UK Polaris Sales Agreement, the United States has sold the UK equipment and associated services for a submarine-launched strategic weapons delivery system. The UK's nuclear deterrent consists of several Vanguard class submarines, each armed with up to 16 Trident missiles.

The United Kingdom and the United States are key partners in terms of defense industry cooperation and defense sales. The two countries are engaged in more than 20 joint equipment programs, including the F-35 Joint Strike Fighter. Most major U.S. defense companies have a UK presence; numerous British companies, most notably BAE Systems, operate in the United States. British defense companies' U.S. operations tend to be part of a larger supply chain, with sales consisting mostly of components and niche equipment rather than entire platforms. U.S. foreign military sales (government-to-government) agreements with the UK were approximately $5.1 billion in FY2016.[41] The authorized value of U.S. direct commercial sales (contractor-to-government) agreements for defense articles and services to the UK in FY2016 was approximately $1.76 billion, and direct commercial sales shipments totaled approximately $94.4 million.[42]

In 2007, in an effort to address long-standing British concerns about U.S. technology-sharing restrictions and export controls, the countries signed a Treaty Concerning Defense Trade Cooperation. The U.S. Senate passed a resolution of advice and consent to ratification of the treaty in 2010.[43] The treaty eliminates individual licensing requirements for certain defense articles and services controlled under the U.S. International Traffic in Arms Regulations. The agreement is reciprocal and is intended to cover defense equipment for which the U.S. and UK governments are the end-users. It also calls for the creation of "approved communities" of companies and individuals in each country with security clearances to deal with technological transfers.

Despite this close cooperation, U.S. officials have expressed concerns about cuts to UK defense spending and reductions in the size and capabilities of the British military in recent years.[44] In 2016, the UK had the world's fifth-largest military expenditure (behind the United States, China, Russia, and Saudi Arabia), spending approximately $52.5 billion.[45] The UK is also one of the few

[40] See United States Government Accountability Office, *Joint Intelligence Analysis Complex*, September 2016, at https://www.gao.gov/assets/690/680175.pdf.

[41] Defense Security Cooperation Agency, *Fiscal Year Series*, at http://www.dsca.mil/sites/default/files/fiscal_year_series_-_30_september_2016.pdf.

[42] U.S. Department of State, *Section 655 Annual Military Assistance Reports*, at https://www.pmddtc.state.gov/reports/documents/2016%20Section%20655%20Report.pdf.

[43] The treaty is numbered 110-7. The full text of the treaty can be accessed at http://www.state.gov/t/pm/rls/othr/misc/92770.htm.

[44] See, for example, Con Coughlin and Steven Swinford, "US Military Chief: Britain Cannot Cut More Troops," *The Daily Telegraph*, March 1, 2015, at http://www.telegraph.co.uk/news/uknews/defence/11443758/US-military-chief-Britain-cannot-cut-more-troops.html.

[45] International Institute for Strategic Studies, *The Military Balance 2017*, pp. 19.

NATO countries to meet the alliance's defense spending benchmark of 2% of GDP (according to NATO, the UK's defense spending was 2.21% of GDP in 2016).

Nevertheless, as part of the government's broad austerity program, UK defense spending decreased 8% in real terms (inflation adjusted) over the period 2011-2015. The cuts affected each branch of the British military, with the overall number of full-time, trained service personnel decreasing by almost 31,000, a 17% reduction in the size of the armed forces.[46] Experts assert that the cuts, combined with other associated decisions about personnel, equipment, and operational readiness, reduced the UK's conventional military combat capability by 20%-30%.[47]

A Strategic Defence and Security Review (SDSR) published in 2015 addressed the UK's future military spending and defense posture. The document committed the UK to maintaining a minimum defense spending level of 2% of GDP, increasing defense spending by 0.5% above inflation annually through 2021, increasing the budget for equipment acquisition over the next 10 years (totaling £178 billion, or approximately $252 billion), and devoting considerably greater resources to the country's intelligence and security agencies.[48] Among the planned acquisitions are two new aircraft carriers (HMS *Queen Elizabeth* and HMS *Prince of Wales*), 138 F-35s, new warships, and the renewal of the Trident nuclear deterrent. (With 65,000 tons displacement, the Queen Elizabeth class carriers are the largest ships ever built for the Royal Navy. By comparison, the new U.S. Gerald R. Ford class carriers have 100,000 tons displacement.)

Experts observe, however, that the SDSR made more commitments than it could afford. Overambitious spending plans, difficulties meeting efficiency savings targets, commitments to maintain personnel numbers, and a decline in the value of the pound have left the UK Ministry of Defence with a £20 billion (approximately $28.4 billion) funding gap for the next decade. The defense element of a National Security Capability Review, to be completed by summer 2018, is expected to offer potential solutions and trade-offs, possibly including scaling back or deferring acquisitions, delaying equipment upgrades, or cutting additional personnel and capabilities (such as amphibious landing ships).[49] In the meantime, the Ministry of Defence continues to face resistance from the Treasury in pushing for additional budgetary resources to help fill the gap.

While experts assert that the UK remains one of the few European countries capable of expeditionary combat operations, defense resource constraints suggest an ability more for "time-limited deployments against less sophisticated opponents" than a "credible full-spectrum combat capability against a peer competitor such as Russia."[50] Beyond debate over conventional capabilities, the UK also has been focusing on areas such as special forces, intelligence, counterterrorism, and cybersecurity to face what many experts consider the most likely threats to the country's security.

In October 2016, the UK launched a new National Cyber Security Centre (NCSC) within the GCHQ. The NCSC absorbed and replaced four previous government cybersecurity units,

---

[46] UK Ministry of Defence, *UK Defence Statistics Compendium 2014*, November 27, 2014.

[47] International Institute for Strategic Studies, *The Military Balance 2016*, pp. 68.

[48] HM Government, *National Security Strategy and Strategic Defence and Security Review 2015*, at https://www.gov.uk/government/publications/national-security-strategy-and-strategic-defence-and-security-review-2015.

[49] Malcolm Chalmers, *The UK Defence Modernisation Programme: A Risk And An Opportunity*, Royal United Services Institute, January 25, 2018, at https://rusi.org/commentary/uk-defence-modernisation-programme-risk-and-opportunity and "Britain Confronts The Limits Of Its Military Power," *Financial Times*, December 12, 2017.

[50] "Britain Confronts The Limits Of Its Military Power," *op. cit*. and International Institute for Strategic Studies, *The Military Balance 2017*, pp. 170.

bringing together their expertise in a single point of contact for the public and private sector. The agency provides advice, consulting services, and incident response and recovery services. It works with law enforcement, intelligence and security agencies, and international partners.[51]

Counterterrorism

Counterterrorism remains a primary issue for the UK. In the decade after four suicide bombers killed 52 people and injured more than 700 in central London on July 7, 2005, authorities reportedly disrupted about 40 major terrorist plots against the UK.[52] Between March and June 2017, there were three terrorist incidents in the UK claimed by the Islamic State group, including car and knife attacks in London and a suicide bombing at a music concert in Manchester. With these attacks perpetrated by British citizens, the group's capacity to direct or inspire attacks in Europe has become a top concern. Experts have estimated that approximately 760 people have traveled from the UK to train or fight in Syria and Iraq and that at least 350 such individuals have returned home.[53]

The UK adopted a new Counter-Terrorism and Security Act in 2015 that enhanced the country's already relatively extensive body of counterterrorism legislation. Among other provisions, the act broadened the powers of police and border officials to confiscate the passports of terrorism suspects, introduced new powers to ban suspected terrorists with British passports from the country, required mobile phone and Internet service providers to retain data for use in terrorism investigations, and placed a new legal duty on relevant institutions (e.g., prisons, universities, schools, and mosques) to report extremism and develop policies to deal with radicals and extremist speakers. Following the June 2017 attacks in London, UK officials have called on internet and technology companies to do more to remove terrorism content from their sites.[54]

Most analysts and officials agree that U.S.-UK intelligence and counterterrorism cooperation is close, well established, and mutually beneficial. UK agencies routinely cooperate with their U.S. counterparts in sharing information, and U.S. and British law enforcement and intelligence agencies regularly serve as investigative partners. Although many of the details and achievements remain secret, U.S.-UK intelligence and counterterrorism cooperation reportedly has disrupted multiple terrorist operations against both countries in recent years, including a plot against the New York Stock Exchange and World Bank in 2004, a major plot against transatlantic aviation in 2006, and a cargo airplane bomb plot in 2010.[55]

The overall intelligence and counterterrorism relationship is overwhelmingly positive, but there have been occasional tensions. The relationship was damaged by public accusations of British complicity in U.S.-led renditions and the alleged torture of terrorist suspects between 2002 and 2008, and there also have been some past tensions about extradition arrangements. More recently, in May 2017, UK officials expressed their anger about leaks attributed to U.S. sources that occurred during the early stages of the investigation into the Manchester terrorist bombing.

In 2013, reports based on leaked, classified documents obtained from a former U.S. NSA contractor focused on surveillance operations allegedly conducted by the NSA and GCHQ. Under

[51] See https://www.ncsc.gov.uk/.

[52] "UK Faces Biggest Terrorism Threat in Its History - Theresa May," Reuters, November 24, 2014.

[53] International Centre for Counter-Terrorism, *The Foreign Fighters Phenomenon in the European Union*, April 2016.

[54] See also CRS Insight IN10209, *European Security and Islamist Terrorism*, by Kristin Archick, Paul Belkin, and Derek E. Mix.

[55] See British Prime Minister's Office, *US and UK Counterterrorism Cooperation*, at http://www.number10.gov.uk/news/counterterrorism-cooperation/.

the Tempora program, which has not been acknowledged by GCHQ, the UK reportedly has tapped into undersea transatlantic fiber-optic cables that carry international telephone and internet traffic. Media reports have suggested that the NSA and GCHQ worked together on at least some aspects of collection operations and have shared information gathered from these programs with each other. This episode raised considerable concerns among UK civil liberty and privacy groups.

At the end of 2016, the UK adopted a new Investigatory Powers Act intended to update the legal framework governing surveillance activities and clarify authorization procedures, privacy constraints, transparency requirements, and other safeguards. Critics charge that the law also grants the government sweeping new powers to collect and retain data and to force technology companies to share information.[56]

Economic Relations

The U.S.-UK bilateral investment relationship is the largest in the world. In 2016 (latest complete data available), U.S. foreign direct investment (FDI) in the UK was $682.4 billion. Total U.S. corporate assets in the UK stood at approximately $5 trillion in 2016, representing 19% of total U.S. corporate assets abroad. UK FDI in the United States was $555.7 billion in 2016, and total UK corporate assets invested in the United States exceed $2 trillion. In 2016, UK affiliates employed approximately 1.16 million U.S. workers, and U.S. firms employed nearly 1.45 million people in the UK. The prospect of Brexit is having an effect on the investment relationship: U.S. FDI flows to the UK reportedly decreased 50% over the first nine months of 2017, compared to the same period of 2016.[57]

The UK is the United States' seventh-largest trading partner. In 2017, U.S. exports of goods to the UK were worth more than $56.3 billion and U.S. imports from the UK were worth more than $53 billion.[58] The UK is the United States' largest trading partner with regard to services. U.S. services exports to the UK totaled $65.7 billion in 2016 and U.S. services imports from the UK totaled $51.7 billion.[59]

President Trump and some Members of Congress have expressed support for the idea of concluding a bilateral free trade agreement with the UK.[60] Although the UK cannot formally negotiate trade agreements until it leaves the EU, informal discussions between U.S. and UK officials could potentially take place to begin outlining the parameters of an eventual agreement.

Conclusion

The UK is likely to remain a strong U.S. partner, and Brexit is unlikely to cause a dramatic makeover in most aspects of the U.S.-UK relationship. Analysts believe that close U.S.-UK cooperation will continue for the foreseeable future in areas such as counterterrorism, intelligence, economic issues, and the future of NATO, as well as on numerous global and

[56] See Cara McGoogan, "What Is The Investigatory Powers Bill And What Does It Mean For My Privacy?," *The Daily Telegraph*, November 29, 2016, at http://www.telegraph.co.uk/technology/2016/11/29/investigatory-powers-bill-does-mean-privacy/.

[57] Daniel S. Hamilton and Joseph P. Quinlan, Center for Transatlantic Relations, Johns Hopkins University School of Advanced International Studies and the American Chamber of Commerce to the European Union, *The Transatlantic Economy 2018*, p. viii, 5-8, 146.

[58] U.S. Department of Commerce, United States Census Bureau, *Trade in Goods with United Kingdom*.

[59] Hamilton and Quinlan, *op, cit.*, p. 146.

[60] See CRS Report R44817, *U.S.-UK Free Trade Agreement: Prospects and Issues for Congress*, by Shayerah Ilias Akhtar.

regional security challenges. NATO remains the preeminent transatlantic security institution, and UK leaders have indicated their continued commitment as a leading country in NATO. The UK also is expected to remain a key U.S. partner in operations to combat the Islamic State in Iraq and Syria. UK officials have emphasized that Brexit does not entail a turn toward isolationism and that the UK intends to remain a global leader in international diplomacy, security issues, trade and finance, and development aid.

At the same time, Brexit could have a substantial impact on certain U.S. strategic interests, especially in relation to Europe more broadly and with respect to possible implications for future developments in the EU. With the UK commonly regarded as the strongest U.S. partner in the EU, a partner that commonly shares U.S. views, and an essential voice in efforts to develop stronger EU foreign and defense policies, some U.S. officials have conveyed concerns that the UK's withdrawal could make the EU a less capable and less reliable partner on security and defense issues. As the UK is a leading voice for robust EU sanctions against Russia due to its actions in Crimea and eastern Ukraine, some observers suggest the departure of the UK could shift the debate in the EU about the duration and severity of the sanctions (the measures must be renewed every six months).

Some analysts have suggested that 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). In the past, 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. In 2011, for example, the UK blocked a proposal to consolidate the command structure for EU military missions under a single permanent operational headquarters. In recent years, U.S. officials generally have supported EU initiatives aimed at increasing European defense capabilities, but they continue to urge that such efforts remain complementary to NATO and do not duplicate or compete with NATO activities.[61]

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 (such as terrorism and instability to Europe's south and east). Some observers note that Brexit pushes Europe back toward another prolonged bout of internal preoccupation, consuming a considerable degree of UK and EU time and personnel resources in the process.

Author Information

Derek E. Mix
Analyst in European Affairs

Disclaimer

[61] See Aaron Mehta, "US cautiously watching EU military proposal," *DefenseNews*, February 13, 2018, at https://www.defensenews.com/global/europe/2018/02/13/us-cautiously-watching-eu-military-proposal/.

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.