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# The United Kingdom: Background and Relations with the United States

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June 15, 2015

**Congressional Research Service**

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[www.crs.gov](http://www.crs.gov)

RL33105

## 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, as well as extensive and long-established cooperation on a wide range of foreign policy and security issues. In the minds of many Americans, the UK's strong role in Iraq and Afghanistan during the past decade reinforced an impression of closeness and solidarity.

### **2015 Election Result**

The Conservative Party, led by incumbent Prime Minister David Cameron, won an unexpectedly decisive victory in the May 7, 2015, general election. The Conservatives won 331 out of the 650 seats in the House of Commons, allowing them to form a single-party government with a narrow absolute majority. After falling short of a majority in the 2010 election, Prime Minister Cameron and the Conservative Party had led the UK government for the previous five years in a coalition with the Liberal Democrats.

The Labour Party dropped from the 258 seats it won in 2010 to 232 seats. The Liberal Democrats were reduced to eight seats, after winning 57 in 2010 and entering government for the first time as the junior coalition partner. The Scottish National Party (SNP), which led the "Yes" campaign for Scottish independence that was defeated in a September 2014 referendum, made huge gains. After winning six seats in 2010, the SNP won 56 out of Scotland's 59 constituencies in the 2015 election. The UK Independence Party (UKIP), a populist party opposed to immigration and British membership in the European Union (EU), won the third-highest percentage of the nationwide vote, with 12.6%, but was able to win only one parliamentary seat.

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 allows the Conservative Party to continue implementing this program as the centerpiece of their domestic economic policy. There has been progress in reducing the budget deficit, and economic growth has improved since 2013, although critics charge that austerity has heightened social tensions, eroded public services, and hindered economic growth.

### **EU Membership Referendum**

The topic of Europe has long been a source of tension in the UK, and the UK has been one of the most skeptical and ambivalent members of the 28-country EU. In 2013, Prime Minister Cameron outlined his intention to put the terms of a renegotiated relationship with the EU to the British public in an "in-or-out" referendum by the end of 2017. The exact date of the referendum has not been set, but there are indications that it could take place as early as mid-2016. The referendum campaign and possibility of a British exit (a so-called "Brexit") are now set to become central preoccupations of British and EU politics.

### **U.S.-UK Relationship**

In recent years, some observers have suggested that the U.S.-UK relationship is losing relevance due to changing U.S. foreign policy priorities and shifting global dynamics. U.S. officials have expressed increasing concerns about UK defense cuts and their potential effect on future security cooperation. Despite such anxieties, 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.

Given its role as a close U.S. ally and partner, developments in the UK and its 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 transatlantic relations, see CRS Report RS22163, *The United States and Europe: Current Issues*, by (name redacted).

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## Introduction

The modern U.S.-UK relationship was forged during the Second World War. It was cemented during the Cold War, as both countries worked together bilaterally and within the North Atlantic Treaty Organization (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 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 and countering the Islamic State terrorist group; ensuring that Iran's nuclear program can be used solely for peaceful purposes; 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.

## May 2015 Election Result

The United Kingdom's general election that was held on May 7, 2015, resulted in a decisive victory for the Conservative Party, led by incumbent Prime Minister David Cameron. With 331 seats, the Conservatives were able to form a single-party government with a narrow absolute majority in the 650-seat House of Commons. After winning 307 seats in the 2010 election, Prime Minister Cameron and the Conservative Party had led the UK government for the previous five years in a coalition with the Liberal Democrats.<sup>1</sup> The Labour Party suffered a considerable defeat in the 2015 election, with party leader Ed Miliband resigning after the party dropped to 232 seats, down from the 258 it won in 2010.

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<sup>1</sup> Prior to 2010, the Labour Party had won the three previous elections and had led the UK government since 1997, first under Tony Blair (1997-2007) and then under (name redacted). Before that 13-year run of Labour government, the Conservatives had led the UK government for a stretch of 18 years, first under Margaret Thatcher (1979-1990), followed by John Major.

The result came as a considerable surprise to many observers. In the weeks prior to the election, polls consistently projected an extremely close finish, and it appeared nearly certain that the UK was headed for a second consecutive “hung Parliament,” with no party expected to win a majority. The UK political establishment had braced itself for a post-election period of maneuvering and uncertainty in which both the Conservative Party and the Labour Party would attempt to form a government by striking deals with smaller parties. Compared to the final results, however, pre-election polls underestimated the level of Conservative support and significantly overestimated support for Labour.

**Table I. May 2015 UK General Election Results**

Party	# of Seats	Net # of Seats +/-	% of Vote
Conservatives	331	+24	36.9%
Labour	232	-26	30.5%
Scottish National Party	56	+50	3.1%
Liberal Democrats	8	-48	7.8%
UK Independence Party	1	+1	12.6%
All Others	22	-6	9.1%

**Source:** “Election 2015 Results,” BBC News, <http://www.bbc.com/news/election/2015/results>.

**Note:** Turnout was 66.1%.

## The UK’s Changing Political Dynamics

Following the 2010 election, many analysts concluded that coalition governments were likely to become the new norm in UK politics, as a system long dominated by the two large parties grows increasingly fragmented. Although the surprising Conservative majority defied such expectations for 2015, developments related to the smaller parties reflect a number of dynamic changes:

- The losses suffered by the Liberal Democrats were even greater than expected. After winning 57 seats in 2010 and entering government for the first time as the junior coalition partner, the Liberal Democrats were reduced to eight seats. Party leader Nick Clegg, who served as deputy prime minister in the coalition, resigned his position. For decades the Liberal Democrats have sought to portray themselves as a progressive, third-party alternative to the two large parties. In large measure, support for the Liberal Democrats plunged due to unhappiness among voters who felt that the party betrayed its principles by agreeing to a coalition with the Conservatives.
- The Scottish National Party (SNP) made huge gains, winning 56 seats out of Scotland’s 59 constituencies. Following the 2010 election, the Labour Party held 41 seats in Scotland, the Liberal Democrats held 11, and the SNP held 6. The SNP led the “Yes” campaign for Scottish independence that was defeated in a September 2014 referendum and is outspokenly critical of the Conservative Party’s policies and ideology. With the SNP emboldened by this result as it becomes the second-largest opposition party, Scotland is likely to remain a prominent topic in UK politics.

- Over the past several years, the UK Independence Party (UKIP), a populist party opposed to immigration and British membership in the EU, has gained support by drawing away disaffected Conservative voters and capitalizing on anti-establishment sentiments. UKIP notably took first place in the UK's 2014 elections for the European Parliament. In the 2015 election, UKIP won the third-highest percentage of the nationwide vote, with 12.6%, but was able to win only one parliamentary seat.

## **Austerity and the UK Economy**

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 allows 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, but the country was severely impacted by the global financial crisis and entered a deep recession in 2008. After a prolonged slump from 2008 to 2012, the UK has been growing at a stronger pace. Economic growth for 2014 is estimated to have been 2.8%. While forecasts expect the UK's economic growth to average 2.2% per year between 2015 and 2019, concerns remain about the sustainability of the country's economic recovery.<sup>2</sup>

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 greatly 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 more than 90%.

In response to these trends, the coalition government began a program of budget austerity with the original goal of reducing the deficit to below 1.5% of GDP by 2015. The plan has entailed 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. Despite missing its initial targets, the austerity strategy has gradually reduced the budget deficit, to an expected 4.5% of GDP for 2015.

Prior to the 2015 election, the Chancellor of the Exchequer, George Osborne, proposed additional spending cuts of £30 billion (approximately \$47 billion) over the next four years, including £12 billion (approximately \$19 billion) from the welfare budget, in order to achieve a budget surplus by 2019. Suggesting that political pressure could cause the government to slow down the pace of these proposed cuts, analysts forecast a deficit of 2.4% of GDP will remain in 2019.

Supporters have praised the austerity strategy as necessary in order 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 have also charged that the austerity measures are too aggressive, hurt the economy's growth prospects, and erode public services. The country's weak economic

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<sup>2</sup> Economic statistics are from Economist Intelligence Unit, *Country Report: United Kingdom*, May 2015.

performance in 2011-2012 and fears of a double-dip recession fueled such charges that austerity was backfiring. The economy's improved growth starting in 2013 therefore came as a political boost to Prime Minister Cameron. Additionally, unemployment in the UK has decreased from 7.9% in 2010 to 5.3% in 2015.

Over the course of the economic crisis and the UK's subsequent economic struggles, the Bank of England has employed a £375 billion (approximately \$583 billion) "quantitative easing" program of purchasing financial assets from commercial banks. The program is intended to stimulate the economy by raising asset prices, stabilizing market sentiment, and holding down borrowing costs. In addition, the Bank of England has held interest rates at a historically low level after dropping its rate from 5% in late 2008 to 0.5% in 2009.

Many analysts credit a large measure of the UK's stronger economic growth to improved external conditions and higher consumer spending in the context of low oil prices. Despite the positive trend in the growth outlook, analysts point to a number of ongoing, long-term weaknesses in the UK economy, including high private sector debt, low capital spending, and lagging investment in infrastructure and job skills. In the belief that the UK economy has grown overly dependent on government spending and debt-financed consumption, one of the central economic aims of the Cameron government has been to rebalance the economy toward exports, manufacturing, and private sector investment. Analysts assert that this type of restructuring has not yet come about and does not appear imminent.

## **The UK and the European Union**

### **Referendum on Continued Membership**

The 2015 election could have important consequences for the future of the UK's membership in the European Union (EU). In 2013, Prime Minister Cameron outlined his intention to negotiate a "new settlement" with the EU and, if reelected as prime minister, to put the terms of a renegotiated relationship to the British public in an "in-or-out" referendum by the end of 2017.<sup>3</sup>

In May 2015, the government presented a European Union Referendum Bill to Parliament, asserting that a referendum asking the question "Should the United Kingdom remain a member of the European Union?" is to be held by December 31, 2017.<sup>4</sup> The exact date of the referendum has not been set, but there are indications that it could potentially take place as early as mid-2016.

The referendum campaign and possibility of a British exit (a so-called "Brexit") are now set to become central preoccupations of British and EU politics. The outcome is difficult to predict: an April 2015 poll indicated 40% would vote to stay in the EU and 39% to leave, with a significant group of undecided voters.<sup>5</sup>

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<sup>3</sup> "David Cameron's EU Speech in Full," *The Daily Telegraph*, January 23, 2013, <http://www.telegraph.co.uk/news/worldnews/europe/eu/9820230/David-Camerons-EU-speech-in-full.html>.

<sup>4</sup> See <http://services.parliament.uk/bills/2015-16/europeanunionreferendum.html>.

<sup>5</sup> <http://www.populus.co.uk/wp-content/uploads/OmFT-Poll.pdf>.

While many observers have had doubts about the willingness of EU countries to agree to significant new concessions for the UK, the meaning of Prime Minister Cameron's intention to "renegotiate" the terms of UK membership has grown somewhat clearer since the election. The idea appears to rest largely on a package of proposed reforms to the EU that the Cameron government argues will benefit the UK and the other member states. The main areas of proposed reform include:<sup>6</sup>

- enhancing the EU single market, especially in services, digital economy, and energy;
- completing a range of international free trade agreements;
- devising a more business-friendly regulatory framework;
- allowing those countries that wish to integrate further to do so while protecting the interests of those who do not;
- implementing the principle that decision-making should take place whenever possible at the national, regional, and local levels, rather than at the EU level;
- further developing the free movement of services and capital within the EU; and
- protecting the UK's welfare system from abuse, while recognizing the free of movement of people to work within the EU as a fundamental freedom.

Following the introduction of the European Union Referendum Bill, Prime Minister Cameron quickly visited the capitals of France, Germany, the Netherlands, and Poland, seeking to build support for his proposed reforms. In the lead-up to the referendum, the prime minister aims to present the conclusion of agreements on any such reforms as evidence of an improved EU that is responsive to the UK's needs and interests.

## **Background**

Both at home and abroad, many aspects of UK policies are set in the context of the country's EU membership. The other 27 member countries of the EU are among the UK's closest political and economic partners, and over half of British trade is conducted with its fellow EU members. Partners such as NATO and the United States play an important role in the UK's diplomatic and security affairs, but many elements of British foreign policy also have an EU dimension.

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 has often been marked by ambivalence. 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 finally joined the precursor of the modern-day EU in 1973, largely in order to derive the economic benefits of membership but also to have a political voice on the inside as integration took shape.

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<sup>6</sup> Philip Hammond, "Britain's Four-Point Package for EU Reform," *Politico*, June 10, 2015, <http://www.politico.eu/article/britains-four-point-package-for-eu-reform/>.

British observers frequently express frustration that the EU tends to focus far 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. Many British euro-skeptics assert that EU bureaucracy and regulations stifle the UK's economic dynamism and that the UK's contributions to the EU budget are too expensive. They also argue that the EU lacks democratic legitimacy and accountability because many of its decisions are made behind closed doors by non-British and/or unelected officials.

The UK has “opted out” of several major elements of European integration. Most significantly, the UK retains the pound sterling as its national currency and is therefore outside the group of 19 EU member countries that use the euro as their common currency (i.e., the Eurozone). The UK also does not participate in the Schengen Agreement that establishes a passport-free zone among most EU countries.

The Eurozone crisis that began in Greece in 2009 both highlighted preexisting tensions in the UK-EU relationship and created new ones. British leaders have stressed that a stable and successful Eurozone is greatly in the UK's interest, but the Cameron government pointedly declined to participate in numerous elements of the EU's crisis response efforts, such as contributing to the EU sovereign “rescue funds,” and has zealously safeguarded the UK's financial sector from attempts to extend EU regulation. The UK declined to participate in a new “fiscal compact” treaty, which calls for greater central surveillance over national budgets and the adoption of a balanced budget requirement in national constitutions. The UK was also a leading voice of opposition against proposals to increase the EU budget.

At the same time, the UK has been anxious to maintain a seat at the table and to protect its interests in the functioning of the EU single market (comprised of all 28 EU members). British leaders have supported tighter integration within the Eurozone on fiscal and banking issues as a necessary solution to the crisis but have been concerned about the prospect of being sidelined by new intergovernmental institutions in which decisions taken among the 19 Eurozone countries affect the interests of all 28 EU members.

The Cameron government has acted on pressures to reclaim some aspects of national sovereignty from Brussels, starting with the area of “justice and home affairs” (EU police and judicial cooperation). The UK has also irritated some of its EU partners by essentially vetoing initiatives to develop a stronger EU Common Security and Defense Policy (CSDP). In 2011, the UK blocked a proposal to consolidate the command structure for EU military missions under a single permanent operational headquarters.

The coalition government launched a comprehensive review of the UK's relationship with the EU. The reports published thus far have concluded that membership in the EU is, on balance, beneficial to the UK.<sup>7</sup> A 2013 review of membership in the “single market” found that it made the UK an attractive destination for foreign investment and that access to the European market gave British firms more opportunity to grow. Additionally, numerous observers have pointed out that a British departure from the EU would mean the UK losing out on the benefits of the prospective Transatlantic Trade and Investment Partnership (TTIP) under negotiation between the EU and the United States.

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<sup>7</sup> Benjamin Fox, “New UK Reports Back EU Powers, Enrage Eurosceptics,” *euobserver.com*, February 13, 2014.

According to British euro-skeptics, the Eurozone crisis illustrates that the continent can only drag the UK down. Such observers argue that the UK would be better off freed from the EU's rules and regulations and consequently better able to focus on forging expanded ties to growing and dynamic emerging economies elsewhere. In contrast, advocates of remaining in the EU maintain that membership is essential for the UK's economic fortunes and influence. In addition to the fact that half of the UK's exports go to the EU "single market," business leaders have asserted, for example, that membership in the EU serves as a "launchpad" for the UK's global trade.<sup>8</sup>

## **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 benefitted the pursuit of common interests in bodies such as the UN, NATO, and other multilateral institutions.

The U.S.-UK political relationship encompasses an extensive network of individuals from across the public and private sectors, but relationships between the individual national leaders are often analyzed by some observers as emblematic of countries' broader political relations.

Former Prime Minister Tony Blair established a close personal relationship with both President Bill Clinton and President George W. Bush. The degree to which the UK subsequently influenced U.S. policy choices in the war on terrorism, Iraq, and other issues has been a topic of much debate on both sides of the Atlantic. Some observers contend that Blair played a crucial role in convincing the Bush Administration to initially work through the United Nations with regard to Iraq; that the priority Blair placed on resolving the Israeli-Palestinian conflict helped keep that issue on the Bush Administration's radar screen; and that the UK was instrumental in pressing for a meaningful international peacekeeping presence in Afghanistan, which resulted in the creation of the NATO-led International Security Assistance Force (ISAF).

Critics charge that Blair and the UK got little in return for their support of controversial U.S. policies, pointing out that Blair was unable to prevent the United States from abandoning efforts to reach a comprehensive international consensus regarding Iraq; that little progress was made on the Israeli-Palestinian conflict; and that the U.S. response to Blair's initiatives on issues such as African development and climate change was tepid at best. Impressions of U.S. preponderance formed in 2002-2003 have caused many to characterize the UK as the "junior" partner in the relationship, and to note that the relationship has often appeared to be more "special" to the UK than it is to the United States.

Blair paid a high political price with the British public and within his own Labour Party for his close alliance with President Bush. The Blair-Bush years also launched debate in the UK about

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<sup>8</sup> "CBI Chief Warns UK Against EU Exit Vote," *The Daily Telegraph*, November 19, 2012.

whether future British prime ministers might think twice about boldly supporting controversial U.S. policies or whether they might make more explicit demands of the United States as the price for support. Some British observers became anxious to assert that British national interests come first in deciding British policy, that these interests are not always identical to U.S. national interests, and that the UK should not be overly deferential to the United States in foreign policy issues.

Upon taking over as prime minister in 2007, (name redacted) attempted to maintain the “special relationship” and made no major substantive changes in relations with the United States: he maintained the UK’s commitment to a strong counterterrorism policy and to the mission in Afghanistan, even if he proceeded with the planned withdrawal of British forces in Iraq, which raised some questions and concerns among U.S. policymakers.

Prime Minister Brown pursued close relations with President Obama, but sensing that some aspects of Brown’s initial reception by the U.S. president seemed ambivalent, critics speculated about how much enthusiasm Obama felt about the bilateral relationship. Subsequently, some observers continued to comment on what they perceived as President Obama’s lukewarm attitude toward the British. Some observers have argued that Obama is the first post-war U.S. President with no sentimental attachments to Europe: as U.S. foreign policy priorities focus increasingly on the Middle East and Asia, some maintain that Europe, including the UK, faces a growing struggle to remain relevant in U.S. eyes. In 2009 and 2010, media reports that Brown had been “rebuffed” in numerous attempts to meet with Obama heightened anxiety in the UK about the future of the “special relationship” and how it was viewed by the Obama Administration. At the same time, some observers asserted that certain sources—in particular the British media—tend to read too much into the appearance of personal relations between the individual leaders, noting that the functional aspects of the U.S.-UK political relationship run much broader and deeper.

Some of the anxieties about the relationship were dissipated during President Obama’s state visit to the UK in 2011, during which he repeatedly reaffirmed its importance. Prime Minister Cameron subsequently came to the United States in 2012 in a visit designed to reaffirm U.S.-UK ties and the personal relationship between Cameron and Obama. The two leaders discussed cooperation on a broad range of international issues, and President Obama hosted the prime minister at a state dinner. Prime Minister Cameron returned to the United States and visited with President Obama at the White House again in 2013 and in January 2015. The two leaders have cooperated closely and sought to align their countries’ positions in forums such as the United Nations, NATO, the G-7/8, and the G-20, and on issues such as Ukraine, Russia, Syria, the Islamic State, Iran, the Middle East Peace Process, Afghanistan, and TTIP.

## **Defense Relations**

U.S. officials have been expressing their growing alarm about the potential effects of cuts to UK defense spending and reductions in the size and capabilities of the British military (see “Austerity and the Defense Budget” below).<sup>9</sup> 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 also note that the United States

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<sup>9</sup> See Griff Witte, “U.K.’s Shrinking Military Clout Worries U.S.,” *The Washington Post*, March 2, 2015; “US Army Chief ‘Very Concerned’ About Impact of Cuts on British Forces,” *The Guardian*, March 2, 2015; and “Military Cuts Mean ‘No US Partnership’, Robert Gates Warns Britain,” *BBC News*, January 17, 2014.

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. Beyond the political bonds of similar interests and values, some experts suggest that the United States has been more inclined to listen to the UK than to other European allies because of the UK's more significant military capabilities and willingness to use them against common threats.

During the Cold War, the UK served as a vital base for U.S. forces and continues to host about 9,000 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 January 2015 that U.S. personnel would pull out of three leased UK airbases—RAF Mildenhall, which has served as a hub for transport and tanker aircraft and special operations, RAF Alconbury, and RAF Molesworth. The U.S. Air Force plans to increase personnel at RAF Lakenheath in anticipation of two squadrons of F-35s basing there by 2020.

U.S. and British forces have established extensive liaison, training, and exchange arrangements with one another, with British officers routinely seconded to, for example, the Pentagon, U.S. Central Command Headquarters in Tampa, FL, and U.S. Naval Headquarters in Norfolk, VA. British sources reportedly often have access and input into U.S. defense planning and efforts such as Quadrennial Defense Reviews.

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 also 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 (JSF). Most major U.S. defense companies have a UK presence; numerous British companies, most notably including 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 \$692.6 million in FY2013.<sup>10</sup> Shipment of U.S. direct commercial sales (contractor-to-government) to the UK totaled approximately \$208.6 million in FY2013.<sup>11</sup>

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 September 2010.<sup>12</sup> The treaty eliminates individual licensing requirements for certain defense articles and services controlled under the U.S. International Traffic in Arms Regulations (ITAR). The agreement is reciprocal and is intended to cover defense equipment for which the

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<sup>10</sup> Defense Security Cooperation Agency, *Fiscal Year Series*, [http://www.dsca.mil/sites/default/files/fiscal\\_year\\_series\\_-\\_30\\_september\\_2013.pdf](http://www.dsca.mil/sites/default/files/fiscal_year_series_-_30_september_2013.pdf).

<sup>11</sup> U.S. Department of State, *Section 655 Annual Military Assistance Reports*, [https://www.pmddtc.state.gov/reports/documents/rpt655\\_FY13.pdf](https://www.pmddtc.state.gov/reports/documents/rpt655_FY13.pdf).

<sup>12</sup> The treaty is numbered 110-7.

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.<sup>13</sup>

## **Austerity and the Defense Budget**

In 2014, the UK had the world’s fifth-largest military expenditure (behind the United States, China, Saudi Arabia, and Russia), spending approximately £36.9 billion (about \$57.4 billion).<sup>14</sup> The UK is also one of the few NATO countries to consistently exceed the alliance’s tacit defense spending benchmark of 2% of GDP (the UK’s defense spending was 2.4% of GDP in 2013 and approximately 2.2% in 2014).

In 2010, the UK government released a Strategic Defense and Security Review (SDSR), the country’s first such review since 1998, that set out the future structure of British military forces.<sup>15</sup> The SDSR outlined a vision for a restructured British military by the year 2020 that is smaller but highly flexible, maintains a high degree of readiness, and offers the full range of needed capabilities. Fiscal pressures have had a substantial impact on the British military, however: the SDSR triggered an 8% decrease in the UK’s defense spending over the period 2011 to 2015.<sup>16</sup>

The cuts have affected each branch of the British military, with the overall number of full-time, trained service personnel decreasing by almost 31,000 since 2010, a 17% reduction in the size of the armed forces.<sup>17</sup> The British Army is expected to shrink from approximately 102,000 regulars in 2010 to 82,000 by 2020, and the Royal Navy and Royal Air Force are each expected to decrease by about 5,000 personnel over the same period.<sup>18</sup> Experts assert that the cuts, combined with other SDSR-associated decisions about equipment and operational readiness, have reduced the UK’s conventional military combat capability by 20-30%.<sup>19</sup> According to the International Institute for Strategic Studies, “While the UK armed forces field a wide range of capabilities and have the military culture, logistics and strategic lift to use them, the majority are close to critical mass. This affects all the services and joint capabilities such as ISR.”<sup>20</sup> In addition to the downsizing of active service personnel, the number of UK Ministry of Defence civilian personnel has been cut from nearly 86,000 in 2010 to just over 62,000, a 28% reduction.

In the context of a general government spending review underway since the election, a 2015 SDSR is expected to be completed and published by the end of the year. A March 2015 study by the Royal United Services Institute (RUSI) projects that UK defense spending is set to dip below the 2% of GDP threshold, excluding spending on operations, during the next fiscal year.<sup>21</sup> The

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<sup>13</sup> The full text of the treaty can be accessed at <http://www.state.gov/t/pm/rls/othr/misc/92770.htm>.

<sup>14</sup> International Institute for Strategic Studies, *The Military Balance 2015*, p. 21.

<sup>15</sup> HM Government, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, October 2010.

<sup>16</sup> The 8% decrease is in real terms (inflation-adjusted).

<sup>17</sup> UK Ministry of Defence, *UK Defence Statistics Compendium 2014*, November 27, 2014.

<sup>18</sup> Ben Farmer, “How Britain’s Armed Forces Numbers Are Diminishing,” *The Daily Telegraph*, January 21, 2015.

<sup>19</sup> International Institute for Strategic Studies, *op. cit.*, p. 68.

<sup>20</sup> International Institute for Strategic Studies, *op. cit.*, p. 70.

<sup>21</sup> Malcolm Chalmers, *Mind the Gap: The MoD’s Emerging Budgetary Challenge*, Royal United Services Institute, March 2015.

study asserts that an additional £3 billion to £6 billion (approximately \$4.5 billion to \$9 billion) per year would be needed to keep pace with expected GDP growth and hold defense spending at 2% of GDP for the period 2016-2020. Prime Minister Cameron has thus far declined making a commitment to maintain defense spending at 2% of GDP. The RUSI report projects that a continued squeeze on the UK's defense spending could see the personnel level of the armed forces drop from the current 145,000 to as low as 115,000 to 130,000.<sup>22</sup> Some observers have suggested that continued austerity during the next Parliament could produce plans to cut the British Army down to 60,000.

A March 2015 report by the House of Commons Defence Committee argues that the assumptions underlying the 2010 National Security Strategy and the force structure concept for 2020 are not sufficient given subsequent changes in the security environment that present increased challenges on the borders of Europe and in the Middle East, Africa, and South Asia.<sup>23</sup> The report asserts that further reductions in defense expenditure would damage the UK's credibility as a military ally. It also urges rebuilding conventional capabilities that have been reduced since the Cold War as a top priority, noting that providing a stronger conventional deterrent against an advanced military state such as Russia would require a significantly increased defense budget. At the same time, the report recommends continuing to build capabilities related to "next generation" warfare, including cyber defense and cyber warfare, and combating asymmetric or hybrid warfare tactics.

## **Intelligence and Counterterrorism Cooperation**

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 has reportedly 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.<sup>24</sup>

The overall intelligence and counterterrorism relationship is overwhelmingly positive, but there have been some 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. Related court cases sought the release of intelligence documents and raised concerns in the intelligence community about the risk of confidential information entering the public domain through the British legal system. In part to preserve the integrity of UK intelligence-sharing with the United States, the British government adopted the Justice and Security Act in 2013, permitting evidence to be heard in secret on national security grounds in British civil courts.

There have also been some tensions about extradition arrangements. Although the UK extradited radical Islamist cleric Abu Hamza al-Masri to the United States in 2012 to face trial on terrorism-

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<sup>22</sup> According to the *UK Defence Statistics Compendium 2014*, there were 146,980 full-time, trained personnel as of October 1, 2014.

<sup>23</sup> House of Commons Defence Committee, *Re-Thinking Defence to Meet New Threats*, March 24, 2015, <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmdfence/512/512.pdf>.

<sup>24</sup> See British Prime Minister's Office, *US and UK Counterterrorism Cooperation*, <http://www.number10.gov.uk/news/counterterrorism-cooperation/>.

related charges, U.S. officials were frustrated that the process took eight years after the original U.S. request. British officials have rejected other U.S. extradition requests on human rights grounds, and UK courts have blocked some U.S. extradition requests for terrorist suspects because of insufficient or inadmissible evidence. Some UK legal experts and human rights activists criticize the terms of the current U.S.-UK extradition treaty as being more favorable to the United States. U.S. officials counter that an independent review commissioned by the UK government concluded in 2011 that the treaty is fair and balanced, with U.S. and UK evidentiary standards being the same in practice.<sup>25</sup>

In 2013, reports based on leaked, classified documents obtained from a former U.S. National Security Agency (NSA) contractor focused on surveillance operations allegedly conducted by the NSA and the UK's Government Communications Headquarters (GCHQ, the UK's signals intelligence agency). Under the Tempora program, which has not been acknowledged by GCHQ, the UK has reportedly 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.

UK civil liberty and privacy groups have questioned the legality of GCHQ's reported Tempora program and have claimed that GCHQ circumvented UK law by using the NSA's PRISM program to access the content of private communications of UK citizens. British officials have denied such allegations and asserted that all intelligence-sharing with the United States takes place within the law. The British government has been largely silent in public about the alleged NSA and GCHQ activities, asserting that it does not comment on intelligence matters. In March 2015, the UK Parliament's Intelligence and Security Committee concluded its inquiry into the extent of UK surveillance activities with a report asserting that the country's intelligence agencies do not seek to circumvent the law, but that the legal framework governing their activities is overly complicated and lacks transparency. The report recommends replacing all relevant legislation currently in force with a new, single Act of Parliament that clarifies authorization procedures, privacy constraints, transparency requirements, and other safeguards.<sup>26</sup>

The International Center for the Study of Radicalisation (ICSR) and official British government sources estimate that 500 to 600 people have travelled from the UK to fight in Syria and Iraq.<sup>27</sup> Other sources suggest that this figure represents a minimum estimate, with the actual number as high as 1,000 to 2,000.<sup>28</sup> UK authorities have been actively concerned about this trend since 2011, but the issue has gained a higher profile with the appearance of identified or presumed British fighters in several Islamic State propaganda videos since mid-2014. British fighters in Syria have also reportedly carried out suicide bombings, and researchers have confirmed the deaths of at least 26 individuals who have travelled from the UK to fight.

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<sup>25</sup> For more information, see "Frequently Asked Questions on the U.S.-UK Extradition Relationship," Embassy of the United States to the United Kingdom, April 2013, <http://london.usembassy.gov/gb176.html>.

<sup>26</sup> Intelligence and Security Committee of Parliament, *Privacy and Security: A Modern and Transparent Legal Framework*, March 12, 2015.

<sup>27</sup> Peter R. Neumann, *Foreign Fighter Total for Syria/Iraq Now Exceeds 20,000; Surpasses Afghanistan Conflict in the 1980s*, International Centre for the Study of Radicalisation, King's College London, January 26, 2015, <http://icsr.info/2015/01/foreign-fighter-total-syriairaq-now-exceeds-20000-surpasses-afghanistan-conflict-1980s/>.

<sup>28</sup> See, for example, Radio Free Europe/Radio Liberty, *Foreign Fighters in Iraq and Syria*, updated January 29, 2015, <http://www.rferl.org/content/infographics/infographics/26584940.html>.

The UK government believes that up to 250 individuals that trained or fought in Syria or Iraq have already returned home to the UK. Given the potential for returning extremists to plot attacks on domestic targets, the UK's Joint Terrorism Analysis Centre raised the country's terror threat level from "substantial" to "severe" in August 2014, indicating that an attack is highly likely.<sup>29</sup> Since the London terrorist attacks of July 7, 2005, authorities have reportedly disrupted approximately 40 major terrorist plots against the UK.<sup>30</sup>

In response to the foreign fighters threat, the UK adopted a new Counter-Terrorism and Security Act in February 2015 that enhances the country's already extensive body of counterterrorism legislation. The new act:<sup>31</sup>

- broadens the powers of police and border officials to temporarily confiscate the passports of terrorism suspects for up to 30 days;
- introduces new Temporary Exclusion Orders banning suspected terrorists with British passports from the country for two years and placing strict conditions on their return;
- reintroduces the power to relocate suspects within the UK and limit the distance they may travel;
- requires mobile phone and internet service providers to retain data allowing relevant authorities to identify the individual or device that was using a particular internet protocol (IP) address at a given time;
- requires air, maritime, and rail carriers to provide additional passenger, crew, and service information, including passenger credit card details, in advance of travel;
- places a new legal duty on relevant institutions (ex., prisons, universities, schools, and mosques) to report extremism and develop policies to deal with radicals and extremist speakers;
- makes it illegal for insurance companies to cover terrorist ransom payments; and
- creates a Privacy and Civil Liberties Board to assist the Independent Reviewer of Terrorism Legislation in monitoring the operation and impact of the UK's counterterrorism legislation.

## **Economic Relations**

The U.S.-UK bilateral investment relationship is the largest in the world. In 2013, U.S. foreign direct investment (FDI) in the UK was \$571 billion. Total U.S. corporate assets in the UK stood at nearly \$5 trillion in 2013, representing 22% of total U.S. corporate assets abroad. UK corporate assets invested in the United States totaled nearly \$2.4 trillion in 2013, with UK FDI in the

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<sup>29</sup> See Raffaello Pantucci and Clare Ellis, "The Threat of ISIS to the UK," Royal United Services Institute, October 2014, [https://www.rusi.org/downloads/assets/102014\\_ISIS\\_Threat\\_Assessment.pdf](https://www.rusi.org/downloads/assets/102014_ISIS_Threat_Assessment.pdf); and Raffaello Pantucci, "Britain's Terror Threat From The Levant," CTC Sentinel, January 20, 2015, <https://www.ctc.usma.edu/posts/britains-terror-threat-from-the-levant>.

<sup>30</sup> "UK Faces Biggest Terrorism Threat in Its History - Theresa May," Reuters, November 24, 2014.

<sup>31</sup> <http://www.legislation.gov.uk/ukpga/2015/6/contents/enacted>.

United States at \$518.6 billion for that year. In 2013, UK affiliates employed about 987,000 U.S. workers, and U.S. firms employed approximately 1.27 million people in the UK.<sup>32</sup>

Tourism and trade are also important pillars of the economic relationship. In 2013, U.S. residents made 2.64 million trips to the UK, and there were over 3.8 million British visitors to the United States.<sup>33</sup> In 2014, U.S. exports of goods to the UK were worth nearly \$53.9 billion, and U.S. imports from the UK were worth over \$54 billion.<sup>34</sup>

The European Commission negotiates a common EU trade policy on behalf of its member states, and therefore UK trade policy is formulated within an EU context. The UK has been a consistent supporter of U.S.-EU efforts to lower transatlantic and global trade barriers, and UK officials and business leaders have reacted with strong support to the prospect of the Transatlantic Trade and Investment Partnership under negotiation between the United States and the EU.

## Conclusion

Most analysts agree that the U.S.-UK political relationship is likely to remain close; that the “special relationship” will remain strong on many vital issues in which the UK is a crucial U.S. ally; and that the two countries will remain key economic partners. Observers also assert that the main dimensions of the U.S.-UK relationship are deep and enduring in that they go beyond the personal dynamics of individual leaders and are not subject to sudden moves or policy shifts by either country. Analysts observe that many concerns and assertions about an impending break-up of the “special relationship” tend to be exaggerations.

Nevertheless, many analysts believe that some reassessment of the “special relationship” may be in order. Despite its dominant themes of continuity, the relationship is changing primarily because its geopolitical setting has been changing. The U.S.-UK relationship often remains uniquely close and capable of projecting a considerable degree of power and influence, but there are questions about whether the relative influence and centrality of the relationship is facing a decline. Both countries have sought to adjust their foreign policy approaches to deal with new global challenges and emergent geopolitical trends that are often perceived as the “rise of new powers” or the diffusion of power away from “the West.” In many cases, responses to global challenges continue to reinforce not only the relevance of U.S.-UK cooperation, but the still-frequent role played by the two countries working together to drive international action. In an increasingly “G-20 world,” however, the UK may not be viewed as centrally relevant to the United States in all of the issues and relations considered a priority on the U.S. agenda.

Similar to the United States, the key long-term foreign policy challenges for the UK are likely to revolve around how to define its relationships with emerging powers; how to maintain global influence and relevant capabilities given limited resources; and how to maximize existing

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<sup>32</sup> Statistics from Daniel S. Hamilton and Joseph P. Quinlan, Center for Transatlantic Relations, Johns Hopkins University School of Advanced International Studies, *The Transatlantic Economy 2015*, p. 93.

<sup>33</sup> [http://travel.trade.gov/outreachpages/download\\_data\\_table/2013-US-to-Europe.pdf](http://travel.trade.gov/outreachpages/download_data_table/2013-US-to-Europe.pdf) and [http://travel.trade.gov/outreachpages/download\\_data\\_table/2013\\_UK\\_Market\\_Profile.pdf](http://travel.trade.gov/outreachpages/download_data_table/2013_UK_Market_Profile.pdf)

<sup>34</sup> U.S. Department of Commerce, United States Census Bureau, *Trade in Goods with United Kingdom*, <https://www.census.gov/foreign-trade/balance/c4120.html>.

partnerships and multilateral frameworks (including NATO, the EU, and the United Nations).<sup>35</sup> Meanwhile, many observers assert that a significant degree of the UK's international influence flows from the success and dynamism of the British economy, further raising the stakes on whether the UK can sustain stronger economic growth while continuing to pursue ambitious fiscal consolidation.

The management of the UK's relations with the EU will also bear watching over the next several years. Some analysts argue that life on the margins of an EU more integrated around the Eurozone need not be disastrous for the UK. Both the positive and the negative aspects of a prospective life outside the EU are more difficult to foresee. Envisioning an EU without the UK, many analysts observe that British participation is widely regarded as essential for efforts to develop more robust EU foreign and defense policies. Analysts also assert that the departure of the UK could change the economic character of the EU because the UK generally acts as a leading voice for economic liberalism in EU debates about trade and the single market.

As has been reportedly expressed in conversations between President Obama and Prime Minister Cameron and related bilateral discussions between U.S. and UK officials, these considerations are of central interest to U.S. policymakers who are concerned about a potential UK departure from the EU. With the UK commonly regarded as the strongest U.S. partner in Europe and a partner that commonly shares U.S. views, senior Administration officials have reportedly conveyed their concerns that a UK break from the EU would reduce U.S. influence in Europe, weaken the EU's position on free trade, and make the EU a less reliable partner on security and defense issues.

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<sup>35</sup> See HM Government, *A Strong Britain in an Age of Uncertainty: The National Security Strategy*, October 2010.

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