



# The United Kingdom and U.S.-UK Relations

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## 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 bilateral 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.

The 2010 UK election resulted in the country's first coalition government since the Second World War. The Conservative Party won the most votes in the election, and Conservative leader David Cameron became the UK's prime minister. The Conservatives partnered with the Liberal Democrats, who came in third place, with Liberal Democrat leader Nick Clegg named deputy prime minister. The Labour Party, now under the leadership of Ed Miliband, moved into opposition after leading the UK government since 1997.

Economic and fiscal issues have been the central domestic challenge facing the coalition thus far. Seeking to reduce the country's budget deficit and national debt, the coalition adopted a five-year austerity program early in its tenure. With the UK entering a double-dip recession in 2012, the government has been maintaining its austerity strategy under considerable pressure and criticism. Austerity has also heightened social tensions and contributed to rising political friction between the coalition partners. Although the coalition arrangement went smoothly during its first year, the Conservatives and Liberal Democrats have subsequently disagreed about a series of domestic issues, including a number of proposed changes to the country's political system.

Europe has been another source of tension. The UK has long been one of the most skeptical and ambivalent members of the 27-country European Union (EU). While the Conservative Party remains a stronghold of "euro-skeptics," the Liberal Democrats are the UK's most pro-EU political party. The Eurozone crisis has deepened British antipathy toward the EU, fueling calls to reclaim national sovereignty over issues where decision-making has been pooled and integrated in Brussels. Some analysts believe that a British departure from the EU is a growing possibility; Prime Minister Cameron may seek to renegotiate some of the terms of membership and put the UK's relationship with the EU to a national referendum in 2015. Adding another note of uncertainty to the British political landscape, Scotland plans to hold a referendum in 2014 on whether to separate from the UK and become an independent country.

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. An imbalance of power in favor of the United States has occasionally led some British observers to call for a reassessment of their country's approach to the relationship. Despite such anxieties, most analysts believe that the two countries will remain close allies that choose to cooperate on many important global issues such as counterterrorism, the NATO mission in Afghanistan, efforts to curb Iran's nuclear activities, and global economic 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 Derek E. Mix.

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## **Introduction**

The modern U.S.-UK relationship was forged during the Second World War, and 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, remains the largest non-U.S. contributor to the NATO-led mission in Afghanistan, and took a leading role in alliance operations in Libya in 2011. It is also an important U.S. partner in efforts to pressure Iran over its nuclear activities, and to restart the Middle East peace process. The UK is the seventh-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.

## **The UK's Coalition Government**

The UK general election of May 6, 2010, resulted in a hung parliament, an outcome in which no single party wins a majority of seats in the House of Commons. The Conservative Party, led by David Cameron, won the most seats but fell 19 short of the 326 needed to form a majority government on its own. The Labour Party suffered substantial losses in the election and finished in second place. Labour had won the three previous elections and had led the UK government since 1997, first under Tony Blair (1997-2007) and then under Gordon Brown.

Shortly after the election, the Conservatives reached an agreement on forming a coalition government with the Liberal Democrats, led by Nick Clegg, who finished third in the voting. With this deal reached, Gordon Brown resigned as prime minister and David Cameron became the new prime minister of the United Kingdom. Cameron appointed five Liberal Democrats to serve in his cabinet, including Nick Clegg as deputy prime minister. Ed Miliband, who served as energy and climate change secretary in the Brown government, was chosen to replace Brown as the new leader of the Labour Party, making him also leader of the parliamentary opposition.

**Table I. May 2010 UK General Election Results**

Party	# of Seats	Net # of Seats +/-	% of Vote
Conservatives	307	+97	36.1%
Labour	258	-91	29.0%
Liberal Democrats	57	-5	23.0%
All Others	28	-1	11.9%

**Source:** "Election 2010," BBC News, <http://news.bbc.co.uk/2/shared/election2010/results/>.

Before the 13-year run of Labour government from 1997 to 2010, the Conservatives had led the UK government for a stretch of 18 years, first under Margaret Thatcher (1979-1990), followed by John Major (1990-1997). The Conservatives, who are often also called the Tories, are generally considered to be a party of the center-right, although some elements of the party also tend to be more right-wing than centrist. While critics charge that the Conservative Party remains dominated by the interests of the country's social and economic elites, David Cameron, who became the party leader in 2005 and prime minister at the age of 43, has sought to portray the party as more modern and inclusive. For instance, Cameron has spoken forcefully in support of efforts to address climate change.

The Liberal Democrats were formed by the 1988 merger of the Liberal Party and the Social Democratic Party. The Liberal Democrats are considered a center-left party, and members often describe themselves as progressive. Since their formation, the Liberal Democrats have been the UK's "third party," struggling to assert their voice alongside Labour and the Conservatives. Nick Clegg, who became the party leader in 2007 and deputy prime minister at the age of 43, campaigned on the themes of fairness and social equality, portraying the Liberal Democrats as the alternative to both of the larger parties.

## Austerity and the UK Economy

The economy has been by far the most pressing issue facing the coalition. Between 1993 and 2008, the British economy enjoyed an unprecedented period of sustained economic growth. The country was severely impacted by the global financial crisis, however, and entered a deep recession in 2008. The economy contracted by 4.0% in 2009. After a slow recovery with weak growth in 2010 and 2011, the British economy has returned to recession in 2012, and over the next five years, economic growth is forecast to average less than 1% per year.<sup>1</sup>

During the years of economic expansion, the UK developed a large structural budget deficit. The financial crisis and recession greatly exacerbated this situation: the government budget deficit grew from 5.0% of gross domestic product (GDP) in 2008 to 11.4% in 2009 and 10.2% in 2010. Public sector debt has grown from 52.3% of GDP in 2008 to an expected 89.6% in 2012.<sup>2</sup>

In response to these trends, the Conservative-Liberal coalition government unveiled a major austerity program in June 2010, aiming to reduce the deficit below 1.5% of GDP by 2015 with

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<sup>1</sup> Economist Intelligence Unit, *Country Report: United Kingdom*, December 2012.

<sup>2</sup> *ibid.*

£80.5 billion (about \$129 billion) in spending cuts and £30 billion (about \$48 billion) in tax increases. Cuts include a 20-30% reduction in governmental department expenditures (excluding health and foreign aid, and a smaller reduction in defense and education); a public sector wage freeze; and cuts to welfare benefits such as disability, child benefit, and housing allowances. Tax increases include raising the VAT from 17.5% to 20%; increasing capital gains tax and income tax for high earners; increasing national insurance contributions; and introducing a new bank tax.

This austerity effort remains the signature initiative of the Cameron government, and its key challenge has been to sell the program to the public and to balance the goals of growth and recovery, on the one hand, with concerns about the sustainability of public finances, on the other. Supporters have praised the government's approach as necessary in order to put the UK back on the path of financial sustainability. Critics, however, have charged that the austerity measures are too aggressive, hurt the economy's growth prospects, and are likely to increase unemployment, erode public services, and impact society in ways that are unequal and unfair. The "double dip" recession has led the government to miss deficit targets, and the country's weak economic performance has fueled charges that austerity is backfiring.

In any case, despite widespread concerns about the sustainability of the UK's public finances, there was no obvious pressure from the markets for the UK to adopt additional austerity measures. In contrast to the countries at the center of the Eurozone debt crisis, such as Greece, Ireland, and Portugal, markets ostensibly view the UK's independent floating currency and central bank, and the long-term structure of its debt, as distinct advantages: the UK retains a AAA sovereign rating. Although the UK is not a member of the Eurozone, it has extensive economic linkages with its fellow member countries of the European Union (EU), including considerable bank exposure to countries such as Ireland and Spain. Analysts assert that the Eurozone debt crisis is hurting the UK's economic growth, and any significant worsening of the crisis would likely have major negative repercussions for the British economy.

## **Domestic Political Dynamics**

Given ideological differences between the Conservatives and the Liberal Democrats, analysts asserted that the two parties were an unlikely pairing for the UK's first coalition government since World War II. Adding up the numbers, however, this combination was the only one that could deliver a solid parliamentary majority after the 2010 election, a fact that seems to have provided a strong argument for ideological compromise. The two parties reached an initial policy agreement with a swiftness and ease that surprised some observers, with both parties apparently willing to give ground on some issues. Both parties strongly backed the austerity program, and the coalition functioned relatively smoothly in its first year.

Over the past 18 months, however, the Conservative-Liberal coalition has developed a number of significant strains. The coalition partners have been at odds over proposed changes to the country's voting system, boundary reform (redistricting), reform of the House of Lords, and press regulation in the wake of a media phone-tapping scandal. In addition, the Liberal Democrats, in particular, have suffered from public backlash to austerity. Many members of the party base appear to feel that the party has betrayed its core social principles. The party has felt pressure to assert a more distinct identity within the coalition, and some Liberal Democrats have increasingly argued for an easing of the government's austerity strategy.

The next general election is due in 2015, but given the growing number of friction points in the coalition, some observers suggest that the chances of an early election have increased. On the other hand, analysts assert that the weak condition of the economy and the inevitable public unpopularity of austerity measures will continue to make any notion of breaking up the coalition and holding an early election far too risky for both parties. In early December 2012, one major public opinion poll showed 43% support among voters for the Labour Party, 31% for the Conservatives, and 11% for the Liberal Democrats. In the same poll, 24% of respondents approved of the coalition's record thus far and 61% disapproved.<sup>3</sup>

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

Europe has become another point of disagreement between the coalition partners. Both at home and abroad, many aspects of UK policies are set in the context of the country's membership in the European Union. The other 26 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 a certain degree of ambivalence. 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, fearing a loss of national sovereignty and influence. 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. The UK has "opted out" of several major elements of European integration, however. Most significantly, the UK retains the pound sterling as its national currency and is therefore outside the group of 17 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 has deepened the traditional British skepticism about the EU, and the Conservative Party remains a stronghold of this skepticism. Many members of the Conservative Party are highly critical of the EU and believe the UK has surrendered too much national sovereignty to Brussels. Prior to the 2010 UK election, the prevalence of such "euro-skeptics" among the Conservative ranks had many wondering how a Conservative-led government would manage the UK's relations with the EU. In summer 2009, David Cameron pulled the British Conservative Members of the European Parliament (MEPs) out of the main center-right political group to caucus with much smaller "euro-skeptic" parties. The Conservatives also opposed ratification of the Lisbon Treaty, the EU reform treaty that took effect in December 2009; as leader of the opposition, Cameron had suggested that the UK should hold a national referendum on the treaty instead of approving it by parliamentary vote.

The Liberal Democrats, by contrast, are the most pro-EU of the British political parties, advocating closer integration with Europe, and having campaigned in favor of the UK adopting the euro. The policy agreement announced at the formation of the Conservative-Liberal Democrat

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<sup>3</sup> See the YouGov/Sunday Times poll for December 2-3, 2012, [http://cdn.yougov.com/cumulus\\_uploads/document/8xuu7flmio/YG-Archive-Pol-Sun-results-031212.pdf](http://cdn.yougov.com/cumulus_uploads/document/8xuu7flmio/YG-Archive-Pol-Sun-results-031212.pdf).

coalition indicated that the two parties had agreed to a compromise on Europe under which the UK would be a “positive” participant in the EU. The coalition ruled out any moves toward joining the euro during the lifetime of the current Parliament, and pledged to hold a referendum on any future EU proposals that would transfer additional power or sovereignty to Brussels.<sup>4</sup>

The coalition compromise on Europe initially established what some observers described as a “pragmatic” approach, but the course of the Eurozone crisis has raised tensions to the point where some observers have begun to question the future of UK membership in the EU. British leaders have stressed that a stable and successful Eurozone is greatly in the UK’s interest, but the Cameron government has pointedly declined to participate in numerous proposed elements of the EU’s crisis response efforts, including by 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 that was signed by 25 of the 27 member states and which calls for greater central surveillance over national budgets and the adoption of a balanced budget requirement in national constitutions. The UK has also been a leading voice of opposition against proposals to increase the EU budget.

At the same time, the UK is anxious to maintain a seat at the table and to exert influence in crisis resolution discussions in order to protect its interests in the functioning of the EU single market (comprised of all 27 EU members). British leaders have supported tighter integration within the Eurozone on fiscal and banking issues as a necessary solution to the crisis, but they are concerned about the prospect of being sidelined by new intergovernmental institutions in which decisions taken among the 17 Eurozone countries affect the interests of all 27 EU members. For example, a more tightly integrated “Eurozone caucus” within the EU, making decisions on economic policies that affect the wider single market, would be in a strong position to essentially push its decisions onto the other EU member countries that remain outside the “caucus.”

Many in the Conservative Party have long wished for a referendum on the UK’s EU membership, and many remain irritated that Prime Minister Cameron retracted earlier pledges on holding a referendum if elected. In October 2011, Conservative backbenchers rebelled against the prime minister to push for such a vote, and the referendum was avoided only through the votes of Labour and the Liberal Democrats.

Prime Minister Cameron has indicated the possibility of a referendum about the UK’s relationship with the EU following the next national election in 2015. Analysts believe the prime minister could seek to negotiate with the EU on a “better deal” for the UK, presumably entailing additional “opt outs” that repatriate elements of decision-making integration from Brussels back to London. The Cameron government has been conducting a comprehensive review of the UK’s relationship with the EU, and has already begun acting on pressures to reclaim aspects of national sovereignty from Brussels, starting with the area of “justice and home affairs” (EU police and judicial cooperation). Many observers have doubts, however, about the willingness of EU countries to agree to significant new concessions for the UK.

Assuming there is some type of new deal, Prime Minister Cameron might then put the terms of the renegotiated relationship to the British public in what could essentially amount to an “in-or-

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<sup>4</sup> Vaughne Miller, *The Government's Policy on Europe*, House of Common Library, February 7, 2011, <http://www.parliament.uk/briefing-papers/SN05854>.

out” referendum.<sup>5</sup> Surveys show that a large majority of the British public wants a referendum on EU membership, and one recent poll indicated that 49% would vote to leave the EU and 28% would vote to remain, with many undecided.<sup>6</sup>

## **Scotland**

The question of Scottish independence has also risen to the forefront of British politics. In 1998, the British Parliament passed an act allowing the creation of a regional Scottish Parliament and Executive with devolved powers over local issues. The Scottish National Party (SNP), which has long advocated separation from the UK, won a majority in the Scottish Parliament in 2011 and increased its push for a referendum that could grant Scotland more devolved powers or even outright independence.

In October 2012, Prime Minister Cameron and Scottish First Minister Alex Salmond agreed on the terms for a single-question, in-or-out Scottish referendum on independence from the UK, to be held by the end of 2014. Current polls indicate that a majority of Scots are likely to vote to remain part of the UK, but observers expect pro- and anti-independence campaigns will intensify considerably over the next two years.

Scottish independence would raise numerous challenges and complicated issues, including the status of independent Scotland with regard to NATO and the EU; the status of UK military forces, including nuclear submarines, based in Scotland; the potential need to establish a new national currency for Scotland; and the viability of the Scottish economy and welfare state. The crowns of England and Scotland were joined in 1603 and their parliaments were merged in 1707.

## **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. Relationships between the individual national leaders, however, are often analyzed by some observers as emblematic of countries’ broader political relations.

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<sup>5</sup> See Charles Grant, *How Britain could leave the EU*, Centre for European Reform, [http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2012/bulletin87\\_cg\\_article1-6671.pdf](http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2012/bulletin87_cg_article1-6671.pdf)

<sup>6</sup> James Kirkup, “Half of British voters ‘would choose to leave the EU in referendum,’” *The Daily Telegraph*, November 9, 2012.

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, however, 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 whether future British prime ministers might think twice about boldly supporting controversial U.S. policies or 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, Gordon Brown 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. Over the past four years, some observers have continued to comment on what they have 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 argue that Europe, including the UK, faces a growing struggle to remain relevant in U.S. eyes. In 2009, media reports that Brown had been "rebuffed" in numerous attempts to meet with Obama over the course of the year heightened anxiety in the UK about the future of the "special relationship" and how it was viewed by the Obama Administration. On the other hand, some observers assert 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.

In any case, some of the anxieties about the relationship were at least partially dissipated during President Obama's state visit to the UK in May 2011, during which he repeatedly reaffirmed its

importance.<sup>7</sup> Prime Minister Cameron came to the United States in March 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.

## **Defense Relations**

U.S. defense planners view the UK as one of the most capable European allies—if not *the* most capable—in terms of well-trained combat forces and the ability to deploy them. Observers also note that the United States and the UK tend 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-gathering installations. U.S. and British forces have also 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 and the 2009 U.S. Strategic Review on Afghanistan and Pakistan.<sup>8</sup>

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. The United States has supplied Britain with the missile delivery systems for its nuclear warheads since 1963. The UK's nuclear deterrent currently consists of several Vanguard class submarines, each armed with up to 16 Trident missiles. Although the Liberal Democrats campaigned for phasing out the UK's nuclear role, the Conservatives support maintaining Trident, and the coalition plans to continue with the maintenance and updating of the UK's nuclear weapons.

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 Joint Strike Fighter (JSF). U.S. foreign military sales (government-to-government) agreements with the UK were \$1.8 billion in FY2010 and \$537 million in FY2011.<sup>9</sup> Shipment of U.S. direct commercial sales (contractor-to-government) to the UK totaled nearly \$588 million in FY2010 and \$489 million in FY2011.<sup>10</sup>

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<sup>7</sup> Gordon Rayner, "Barack Obama in London: president pays tribute to 'enduring bond'," *The Daily Telegraph*, May 24, 2011.

<sup>8</sup> See, for example, House of Commons Foreign Affairs Committee, *Global Security: UK-US Relations*, March 18, 2010, pp. 23-24.

<sup>9</sup> Defense Security Cooperation Agency, *Fiscal Year Series*, <http://www.dsca.mil/programs/biz-ops/factsbook/Fiscal%20Year%20Series%20-%2030%20September%202011.pdf>.

<sup>10</sup> U.S. Department of State, *Section 655 Annual Military Assistance Reports*, [http://www.pmdtc.state.gov/reports/655\\_intro.html](http://www.pmdtc.state.gov/reports/655_intro.html).

The United States is the largest overseas supplier of the UK Ministry of Defense. The UK, in turn, is the largest overseas supplier to the U.S. Department of Defense, and the United States is the UK's second-largest defense market overall (behind Saudi Arabia). The United States, however, acquires a relatively small proportion of its defense equipment from overseas: the balance of U.S.-UK defense exports is about 2 to 1 in favor of the United States. Most major U.S. defense companies have a UK presence and, led by BAE Systems, numerous British companies 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.<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 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 2011, the UK had the world's third-largest military expenditure (behind the United States and China, and just ahead of France), spending approximately £39.65 billion (about \$63.6 billion). The UK is also one of the few NATO countries that exceeds the alliance's tacit defense spending benchmark of 2% of GDP (the UK's defense spending was 2.6% of GDP in 2011).<sup>14</sup>

In October 2010, the UK government released a Strategic Defense and Security Review (SDSR), the country's first such review since 1998, that sets out the future structure of British military forces.<sup>15</sup> The SDSR lays out 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 are expected to have a substantial impact on the British military, however: the SDSR called for an 8% decrease in the UK's defense spending over the period 2011 to 2015.<sup>16</sup> The Ministry of Defence is expected to cut 25,000 civilian jobs over the

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<sup>11</sup> See House of Commons Foreign Affairs Committee, *op. cit.*, pp. 25, Ev111-Ev112.

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

<sup>13</sup> The full text of the treaty can be accessed at <http://www.state.gov/t/pm/rls/othr/misc/92770.htm>. Also see Claire Taylor, *UK-US Defence Trade Co-operation Treaty*, House of Commons Library, International Affairs and Defence Section, February 17, 2009, <http://www.parliament.uk/briefing-papers/SN04381>.

<sup>14</sup> NATO Public Diplomacy Division, *Financial and Economic Data Relating to NATO Defence*, April 13, 2012, [http://www.nato.int/nato\\_static/assets/pdf/pdf\\_2012\\_04/20120413\\_PR\\_CP\\_2012\\_047\\_rev1.pdf](http://www.nato.int/nato_static/assets/pdf/pdf_2012_04/20120413_PR_CP_2012_047_rev1.pdf).

<sup>15</sup> HM Government, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, October 2010, [http://www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/documents/digitalasset/dg\\_191634.pdf?CID=PDF&PLA=furl&CRE=sdsr](http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_191634.pdf?CID=PDF&PLA=furl&CRE=sdsr).

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

period, to close or sell off some of its facilities, and to renegotiate some contracts with private industry. Cuts will also affect each branch of the British military:<sup>17</sup>

- The British Army will be reduced by 7,000 personnel, down to 95,500 personnel by 2015. The army's tank force will be reduced by 40% and heavy artillery by 35%. By 2020, the army is expected to shrink to 82,000 regulars.
- Royal Navy personnel will be cut by 5,000, to a total of 30,000 by 2015. The navy decommissioned the aircraft carrier *Ark Royal* four years ahead of schedule and phased out its Harrier jump jets. Two new aircraft carriers that have already been commissioned will be completed, but only one will enter immediately into service, with the other placed on "extended readiness." Given the phase-out of the Harriers and the timetable for the acquisition of naval variant F-35s, the UK will not have a carrier-based strike aircraft capability until 2019. The navy will acquire a new fleet of Astute-class attack submarines and six new Type 45 destroyers, but the surface fleet of destroyers and frigates will drop from 23 ships to 19 by 2020.
- The Royal Air Force will lose 5,000 personnel, decreasing to 35,000 by 2015. In addition to recently-acquired EuroFighter Typhoons and plans to procure F-35s, the RAF intends to acquire 12 new Chinook helicopters. Plans to replace Nimrod surveillance aircraft have been cancelled.
- The government intends to maintain the UK's submarine-based Trident nuclear deterrent, but to reduce the total UK warhead stockpile from 160 to under 120, and to decrease the number of warheads on each submarine from 48 to 40. A decision on replacing Trident submarines will be taken in 2016.

The cuts to the defense budget are not expected to affect on-going British military operations, which are funded separately by a treasury reserve. Nevertheless, U.S. officials including Secretary of State Hillary Clinton and former Secretary of Defense Robert Gates have expressed concerns about the impact of the UK's defense cuts on transatlantic cooperation and burden-sharing.<sup>18</sup> In addition, an August 2011 report by House of Commons Select Defence Committee also raised alarms about the impact cuts would have on the UK military's ability to carry out operations, stating that "We are not convinced, given the financial climate and the drawdown of capabilities arising from the SDSR, that from 2015 the Armed Forces will maintain the capability to undertake all that is being asked of them."<sup>19</sup>

## **The UK in Afghanistan**

The UK continues to be the second-largest troop contributor to the NATO-led International Security Assistance Force (ISAF) mission in Afghanistan. As of early December 2012, the UK

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<sup>17</sup> "Defence review: Cameron unveils armed forces cuts," *BBC News*, October 19, 2010, <http://www.bbc.co.uk/news/uk-politics-11570593>.

<sup>18</sup> Nicholas Watt, "Hillary Clinton 'worried' by UK defence cuts," *The Guardian*, October 15, 2010, <http://www.guardian.co.uk/politics/2010/oct/14/hillary-clinton-uk-defence-cuts>.

<sup>19</sup> Defense Committee – Sixth Report, *The Strategic Defence and Security Review and the National Security Strategy*, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmdfence/761/76102.htm>.

had 9,500 British troops deployed to ISAF.<sup>20</sup> Most British forces are based in the province of Helmand, where they have engaged in frequent combat with insurgents. The UK military has suffered over 430 combat deaths in Afghanistan, which is more than twice the number of casualties the UK had in Iraq.

By and large, the UK has concurred with the Obama Administration's Afghanistan strategy, and British sources have reportedly had significant input into elements of U.S. strategic review. Points of agreement have included focusing on Afghan army and police training and civilian efforts regarding governance, rule of law, and economic development. Some British officials and observers have long asserted that the key to defeating the insurgency lies in political solutions and incentives aimed at militants who may not be motivated by radical Islamist ideology, and some have long advocated negotiations with the more moderate elements of the Taliban.

The United States and the UK have been leading the formulation of allied strategy for the transition in Afghanistan and the coordinated drawdown of ISAF troops. At NATO's Chicago Summit in May 2012, President Obama and Prime Minister Cameron urged the allies to remain committed to a transition timetable calling for the transfer of security responsibility to Afghan forces in 2013, and a gradual withdrawal of combat troops to be completed by the end of 2014.

In December 2012, Prime Minister Cameron announced that 500 British soldiers would withdraw by the end of the year, followed by an additional 3,800 during the course of 2013, leaving 5,200 British soldiers in Afghanistan by the end of 2013. The full withdrawal of combat troops is to be completed by the end of 2014, with an undetermined number of British troops remaining after 2014 in non-combat training and support roles.<sup>21</sup> Some commanders in the British military have reportedly urged a slower and more cautious withdrawal pace.

In January 2012, the UK and Afghanistan concluded a strategic partnership agreement that outlines the countries' relationship beyond 2014, including a continued UK commitment to training and economic development. The UK intends to continue spending approximately £70 million (approximately \$112 million) per year training and equipping Afghan forces. The UK is also the largest European donor of bilateral economic and development aid to Afghanistan, budgeting an average of £178 million (about \$285 million) per year for the period 2011-2015.<sup>22</sup>

The UK also strongly supports a regional approach to Afghanistan that includes Pakistan. Former Prime Minister Brown stated that three-quarters of the terrorist plots uncovered in the UK have their roots in the Afghanistan-Pakistan border region. The UK is helping train and equip Pakistani forces for counter-insurgency operations along the Afghan border and budgeted £665 million (approximately \$1 billion) in aid to Pakistan over the period 2009-2013.

## **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 the sharing of information, and U.S. and British law enforcement and intelligence

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<sup>20</sup> NATO, *ISAF placemat*, December 3, 2012.

<sup>21</sup> UK Ministry of Defence, *Prime Minister announces reduction in UK troop numbers in Afghanistan*, December 19, 2012, <https://www.gov.uk/government/news/prime-minister-announces-reduction-in-uk-troop-numbers-in-afghanistan>.

<sup>22</sup> Department for International Development (DFID), *Afghanistan Operational Plan 2011-2015*.

agencies regularly serve as investigative partners. According to the UK Foreign Office, the U.S.-UK intelligence and law enforcement relationship “far outstrips the level of interaction and cooperation with other nations.”<sup>23</sup> 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> In addition to efforts seeking to disrupt terrorist attacks against U.S. and European targets, U.S. and UK officials work together with regard to developments in countries such as Afghanistan, Pakistan, Somalia, and Yemen.

Although the overall intelligence and counterterrorism relationship is overwhelmingly positive, 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.

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 October 2012 to face trial on terrorism-related charges, U.S. officials were frustrated that the process took eight years after the original U.S. request. For its part, the British government has faced criticism over the country’s extradition arrangements from some who argue that British citizens should have evidence against them considered in British courts before extradition to another country. Some British observers have repeatedly pointed out, for example, that under current arrangements U.S. prosecutors seeking an extradition are not required to present supporting evidence in their request. U.S. officials were also frustrated in October 2012 when UK Home Secretary Theresa May blocked the extradition of Gary McKinnon, a computer hacker indicted by a U.S. grand jury for allegedly disrupting U.S. military and government computer networks in 2001-2002. Citing McKinnon’s mental health conditions, including Asperger’s syndrome and schizophrenia, May asserted that extradition and trial in the United States would amount to a violation of his human rights.

## **Economic Relations**

The U.S.-UK bilateral investment relationship is the largest in the world. According to 2010 estimates, (most recent data available) the cumulative total of UK corporate assets invested in the United States stood at nearly \$2.2 trillion, with UK foreign direct investment (FDI) in the United States topping \$430 billion for that year. Total U.S. corporate assets in the UK were \$4.4 trillion, with 2010 U.S. FDI in the UK exceeding \$508 billion. UK affiliates employed over 900,000 U.S. workers, and U.S. firms employed nearly 1.2 million people in the UK.<sup>25</sup>

The global financial crisis and recession had a significantly negative impact on world trade and investment flows. Both the United States and the UK are home to major world financial centers, and the U.S.-UK economic relationship was affected. British banks suffered massive losses from

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<sup>23</sup> House of Commons Foreign Affairs Committee, *op. cit.*, p. Ev 61. See also pp. 39-42.

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

<sup>25</sup> Daniel S. Hamilton and Joseph P. Quinlan, Center for Transatlantic Relations, Johns Hopkins University School of Advanced International Studies, *The Transatlantic Economy 2012: Volume 2*, pg. 54.

their exposure to asset-based securities linked to the U.S. sub-prime mortgage market. Transatlantic FDI flows fell sharply from 2007 to 2009, but rebounded strongly in 2010.<sup>26</sup>

Tourism and trade are also important pillars of the economic relationship. In 2010, 2.71 million Americans visited the UK and 3.85 million Britons visited the United States. In 2011, U.S. exports of goods and services to the UK were worth \$56 billion, and U.S. imports from the UK were worth \$51.2 billion.<sup>27</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. Although most of the U.S.-EU economic relationship is harmonious, some tensions persist. Current U.S.-EU trade disputes focus on poultry, aircraft subsidies, hormone-treated beef, and genetically modified (GM) food products. The UK has been a consistent supporter of U.S.-EU efforts to lower transatlantic and global trade barriers, and to reach an agreement in the Doha Round of multilateral trade negotiations.

## Conclusion

Most analysts agree that the U.S.-UK political relationship is likely to remain intimate; 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.<sup>28</sup>

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 partnerships (including with the United States) and multilateral frameworks (including NATO, the

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<sup>26</sup> Daniel S. Hamilton and Joseph P. Quinlan, *op. cit.*, pp. 7-8.

<sup>27</sup> U.S. Department of State, *Background Note: United Kingdom*, March 22, 2012.

<sup>28</sup> See, for example, the November 11, 2009, testimony of Dr. Robin Niblett in House of Commons Foreign Affairs Committee, *op. cit.*, p. Ev 3.

EU, and the United Nations).<sup>29</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; for the foreseeable future, the UK's central domestic priority will remain a combined pursuit of stronger economic growth and 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, however. 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 was reportedly expressed in December 2012 during a videoconference 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.<sup>30</sup> 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 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>29</sup> See HM Government, *A Strong Britain in an Age of Uncertainty: The National Security Strategy*, October 2010.

<sup>30</sup> Alex Spillius, "Britain will be weaker without EU, says USA," *The Daily Telegraph*, December 18, 2012.