

The UK-US 'Economic Prosperity Deal' and Its Impact

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July 1, 2025

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On May 8, 2025, the U.K. and U.S. announced a trade deal to reduce or remove tariffs on each other's exports, including on cars, steel and aluminum, and released the general terms for a potential U.K.-U.S. trade agreement. Both governments refer to the agreement as the "US-UK Economic Prosperity Deal" or "EPD." The short-form document of the general terms makes clear that it is not legally binding.¹ A month later, on June 16, 2025, President Trump signed an executive order to operationalize parts of the EPD.² The specific terms of the order warrant close attention. Notably, the executive order implements terms relating to automotive tariff reductions agreed to in the EPD and spares U.K. exports of jet engines and other aerospace parts from U.S. tariffs. Contrary to expectations, however, the executive order does not provide any immediate relief from steel and aluminum tariffs, and U.K. exporters will continue to face the 25% duties.

Since the two governments announced the EPD, two U.S. federal courts — the U.S. Court of International Trade (CIT) and the U.S. District Court for the District of Columbia — independently struck down the "reciprocal" or "baseline" tariffs introduced by the Trump administration under the International Emergency Economic Powers Act (IEEPA).³ However, within days, federal appeals courts granted bids from the White House in both cases to stay the injunctions issued by the lower courts' orders.⁴ At the time of this writing, the tariffs will remain in place while the appeals courts consider the government's appeals on an expedited basis. Given the significance and constitutional complexity of these cases, it is possible, if not likely, that the Supreme Court will review the legality of the IEEPA tariffs. But if either of the lower court rulings is affirmed, this could require the U.S. administration to remove the tariffs announced on April 2, 2025, as part of President Trump's "Liberation Day" trade measures.⁵ Notably, the EPD does not provide an exemption from the Trump administration's baseline 10% tariff, and the tariffs addressed by the deal are implemented under separate U.S. legal authorities.

Below, we set out the EPD's proposals and the extent to which President Trump's recent executive order implements them, and we consider their potential implications on a future U.K.-U.S. trade agreement. (Read our [analysis of the Trump administration's April 2025 tariff announcements](#).)

¹ [General Terms for the United States of America and the United Kingdom of Great Britain and Northern Ireland Economic Prosperity Deal](#) (May 8, 2025) (EPD General Terms).

² U.S. Executive Order "Implementing the General Terms of the United States of America-United Kingdom Economic Prosperity Deal" (June 16, 2025).

³ *V.O.S. Selections, Inc. v. Trump*, No. 25-00066, (Ct. Int'l Trade 2025); *Learning Resources Inc. v. Trump*, No. 25-1248-RC (D.D.C. 2025).

⁴ *V.O.S. Selections, Inc. v. Trump*, No. 25-1812, (Fed. Cir. 2025); *Learning Resources Inc. v. Trump*, No. 25-1248-RC (D.C. Cir. 2025).

⁵ Much depends on the appellate courts' reasoning. For instance, if the U.S. Supreme Court ultimately adopts the view that IEEPA does not authorize the president to impose tariffs, the "Liberation Day" tariffs would be illegal from their inception. But the reasoning could be more nuanced — for instance, if the Court accepted the ability of the president to impose tariffs under IEEPA, but felt the Liberation Day measures were "unlimited" (following the CIT's logic), it is conceivable that the Trump administration could retain a modified version of these tariffs, subject to certain limitations. We note that, in addition to the Liberation Day tariffs, the cases challenge the IEEPA-based tariffs imposed on the import of products from Canada, China and Mexico.

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Key Provisions of the EPD

Tariff Reductions

- **Automotives:** The executive order sets out that tariffs on U.K. automotive imports and auto parts will be reduced from 27.5% to 10% by the end of June 2025,⁶ and the U.S. will create a quota of 100,000 U.K. cars annually as agreed to under the general terms in May 2025.⁷ The U.K. government press release noted that the quota of 100,000 U.K. cars almost equals the total number the U.K. exported to the U.S. in 2024.⁸ However, any cars exported above the quota will be subject to a 27.5% tax, which effectively establishes a ceiling for the number of cars the U.K. can export competitively.

Tariffs on automobiles have been the subject of considerable speculation, particularly in light of recent U.S. federal court decisions regarding the Trump administration's baseline 10% tariff. Under the executive order, U.K. vehicles will still be subject to a combined 10% tariff, consisting of a 7.5% tariff imposed under the IEEPA and the standard 2.5% most-favored-nation rate.⁹ The legal basis for the 7.5% tariff may be vulnerable if courts ultimately invalidate the "Liberation Day" trade measures. Nevertheless, the U.S. appears comfortable granting the U.K. an exemption from the higher 25% tariff, relying on the combined 10% tariff as a backstop, even in the face of ongoing legal challenges.

- **Steel and aluminum:** The general terms of the EPD state that, subject to the U.K. meeting U.S. demands on supply chain security and the "ownership of relevant production facilities," the U.S. will construct a quota at most-favored-nation rates for U.K. steel and aluminum and certain derivative steel and aluminum products.¹⁰ The general terms do not set out the nature of the supply chain security requirement; however, reportedly U.K. officials confirmed that the Trump administration made clear that China was the intended target of the condition.¹¹ At the time of the EPD's announcement, the White House published a fact sheet stating that the U.S. intends to negotiate an "alternative agreement" to the 25% tariff imposed on U.K. steel and aluminum, while the equivalent U.K. press release went a step

further by stating that the two countries had negotiated the 25% tariff on U.K. steel and aluminum down to zero.¹²

The White House since announced on June 3, 2025, that, subject to some exceptions, it will double tariffs on all steel and aluminum imports from 25% to 50%, but granted the U.K. a carve-out from the measures, stating that U.S. tariffs on U.K. steel and aluminum will remain at 25% "with possible changes or quotas starting July 9, 2025, depending on the status of the US-UK Economic Prosperity Deal."¹³ While the U.K.'s exemption from the tariff increase falls short of the zero tariffs on steel and aluminum that the U.K. previously announced had been negotiated with the U.S., the Trump administration's different treatment of the U.K. has been framed as an apparent implementation of the EPD. A U.K. government spokesperson stated that the U.K. will continue to work with the U.S. to implement the EPD in order to see the 25% tariffs on steel and aluminum removed.

Trump's executive order on June 17, 2025, has provided no immediate relief from the existing 25% tariff on steel and aluminum imports. The only potential avenue for relief is the possibility of a tariff-rate quota (TRQ) that may be established at an unspecified future date.¹⁴ However, this option is contingent on several factors, including the U.K.'s implementation of the EPD's general terms and the successful conclusion of a final trade agreement between the two countries. The decision to grant a TRQ ultimately rests with the U.S. Commerce Secretary, who has broad discretion to determine when and if such relief is appropriate.

- **Pharmaceutical products:** The approach taken to pharmaceutical products in the general terms is similar to the stance on U.K. steel and aluminum, with the negotiation of "significantly preferential treatment outcomes" on pharmaceuticals and pharmaceutical ingredients, dependent on the U.K. meeting supply chain security requirements. This likely reflects the fact that the U.S. recently launched a Section 232 investigation into — and is poised to announce duties on — imports of certain pharmaceutical products from all countries, although the exact scope of the tariffs is yet unknown.¹⁵ Country-specific exemptions — such as those the U.K. secured from existing Section

⁶ U.K. government press release "British Aerospace Manufacturers To Benefit From UK-US Trade Deal" (June 17, 2025).

⁷ EPD General Terms, paragraph 1(c)(i). As of June 30, 2025, there was still no evidence from U.S. customs authorities that the tariff reduction has been implemented.

⁸ U.K. government press release "Landmark Economic Deal With United States Saves Thousands of Jobs for British Car Makers and Steel Industry" (May 8, 2025).

⁹ White House Fact Sheet, "Implementing the General Terms of the US-UK Economic Prosperity Deal" (June 17, 2025).

¹⁰ EPD General Terms, paragraph 1(c)(ii).

¹¹ *Financial Times*, "US-UK Trade Deal Squeezes China Supply Chains," May 9, 2025.

¹² White House Fact Sheet "US-UK Reach Historic Trade Deal" (May 8, 2025); U.K. government press release "Landmark Economic Deal With United States Saves Thousands of Jobs for British Car Makers and Steel Industry" (May 8, 2025).

¹³ White House Fact Sheet "President Donald J. Trump Increases Section 232 Tariffs on Steel and Aluminum" (June 3, 2025).

¹⁴ U.S. Executive Order "Implementing the General Terms of the United States of America-United Kingdom Economic Prosperity Deal", Section 4 (*Aluminum and Steel Articles and Their Derivative Articles*) (June 16, 2025).

¹⁵ U.S. Department of Commerce, Notice of Request for Public Comments on Section 232 National Security Investigation of Imports of Pharmaceuticals and Pharmaceutical Ingredients, 90 Fed. Reg. 15951 (April 16, 2025).

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232 tariffs on steel and aluminum — may be the blueprint for future EPDs between the U.S. and other economies. Again, the general terms do not further specify the supply chain security requirements.¹⁶ Trump's executive order on June 16, 2025, does not go into any further detail, but confirms that the U.S. and U.K. will negotiate preferential treatment outcomes for U.K. pharmaceuticals and pharmaceutical ingredients contingent on the findings of a Section 232 investigation.¹⁷

- **Reduced U.K. import protections on beef and ethanol:** U.S. beef exports to the U.K. are currently subject to a 20% tariff within a tariff-free quota for 1,000 metric tons of U.S. beef. The general terms agree to remove the 20% tariff and create a preferential tariff-free quota for 13,000 metric tons for U.S. beef.¹⁸ In return, the U.S. will reallocate to the U.K. 13,000 metric tons of its existing "Other Countries" tariff-rate quota for beef. The deal also reduces tariffs on U.K. imports of ethanol from the U.S. to zero.¹⁹ The White House fact sheet values the export opportunity at US\$700 million in ethanol exports and US\$250 million in other agricultural products, including beef.²⁰
- **Aerospace sector:** In the general terms of the EPD, the U.S. and U.K. committed to adopt a structured, negotiated approach to addressing U.S. national security concerns regarding sectors that may be subject to future section 232 investigations.²¹ Trump's executive order on June 16, 2025, declares that to this end the U.S. and U.K. are further committed to strengthen aerospace and aircraft manufacturing supply chains by establishing tariff-free bilateral trade in certain aerospace products.²²

Other Provisions

- **Non-tariff barriers:** The White House commented that the deal results in the U.K. reducing or eliminating numerous non-tariff barriers that "unfairly discriminated against American products."²³ Terms relating to non-tariff barriers include the countries' joint intention to build on an existing set of Mutual Recognition Agreements by negotiating additional agreements, as appropriate, regarding certain industrial goods and advancing an agreement on domestic regulation for services.²⁴

- **Digital trade:** The general terms state that both countries intend to negotiate a set of digital trade provisions that will include financial services within its scope.²⁵ The U.K. government's press release following the release of the general terms flagged that the Digital Services Tax (DST) remains unchanged as part of the new EPD deal.²⁶ Neither the executive order nor public statements following further discussions between the U.S. and U.K. in June make any mention of the DST. However, on June 29, 2025, Canada announced that it would rescind its DST in an effort to advance broader trade negotiations with the U.S., which may increase pressure on the U.K. to follow suit despite its previous statements.²⁷
- **Investment security measures:** The general terms include a "Strengthening Alignment and Collaboration on Economic Security" section, in which the U.K. and the U.S. agreed to "coordinate to address nonmarket policies of third countries," a possible reference to Chinese trade practices and other policies.²⁸ The general terms also highlight that both countries "intend to cooperate on the effective use of investment security measures, export controls, and ICT vendor security, building on the current levels of close alignment on trade and investment security measures."

Impact of the EPD and Next Steps for UK-US Trade Relations

The general terms of the EPD state that the U.K. and U.S. are "immediately beginning negotiations of the EPD to develop and formalize the proposals made in this document."²⁹ Given President Trump's proclamation on June 3, 2025, includes an explicit warning that, unless the EPD is concluded by July 9, 2025, the U.K. could see its exemption from the higher aluminum and steel import tariffs removed, there is pressure for the final binding version of the agreement to be agreed upon quickly. However, this deadline may be flexible considering U.S. Treasury Secretary Scott Bessent's recent statement that the Trump administration is now targeting early September 2025 to finalize its other bilateral negotiations.

There is also the question of how a permanent injunction invalidating the IEEPA tariffs might affect a prospective U.S.-U.K. trade agreement. Regardless of how such an injunction would affect the IEEPA tariffs, on the face of it, the terms of the EPD

¹⁶ EPD General Terms, paragraph 1(c)(iii).

¹⁷ U.S. Executive Order "Implementing the General Terms of the United States of America-United Kingdom Economic Prosperity Deal", Section 1 (Background) (June 16, 2025); White House Fact Sheet "President Donald J. Trump Increases Section 232 Tariffs on Steel and Aluminum" (June 3, 2025).

¹⁸ EPD General Terms, paragraph 1(b).

¹⁹ *Ibid.*

²⁰ White House Fact Sheet "US-UK Reach Historic Trade Deal" (May 8, 2025).

²¹ EPD General Terms, paragraph 1(iv).

²² U.S. Executive Order "Implementing the General Terms of the United States of America – United Kingdom Economic Prosperity Deal", Section 1 (Background) and Section 3 (Aerospace) (June 16, 2025).

²³ White House Fact Sheet "US-UK Reach Historic Trade Deal" (May 8, 2025).

²⁴ EPD General Terms, paragraph 2(c).

²⁵ EPD General Terms, paragraph 3(a).

²⁶ U.K. government press release "Landmark Economic Deal With United States Saves Thousands of Jobs for British Car Makers and Steel Industry" (May 8, 2025).

²⁷ Department of Finance Canada's press release "Canada Rescinds Digital Services Tax To Advance Broader Trade Negotiations With the United States" (June 29, 2025).

²⁸ EPD General Terms, paragraph 4.

²⁹ EPD General Terms, "Context and Objectives."

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should be unaffected because the tariffs addressed by the EPD are not those implemented under IEEPA.

If the IEEPA tariffs are struck down, however, the Trump administration could revisit the EPD. The ruling would change the terms of trade significantly since the EPD was negotiated under the assumption that the 10% baseline tariffs on U.K. goods entering the U.S. would exist at the time the parties entered into a long-form trade agreement.

Bereft of the 10% baseline tariffs, the U.S. could, for example, focus more keenly on securing other concessions from the U.K. — such as the elimination or reform of the U.K.'s DST. Addressing DSTs has become a key priority for the Trump administration and congressional Republicans. In recent testimony before the House Ways and Means Committee, U.S. Treasury Secretary Scott Bessent characterized DSTs as a “centerpiece” of U.S. negotiations with trading partners. Congressional Republicans reinforced this focus when they

recently passed a comprehensive tax bill, H.R. 1, that includes measures to pressure foreign countries to repeal or exempt U.S. persons from what those lawmakers perceive as “unfair foreign taxes,” which are defined to include DSTs, undertaxed profits rules and diverted profits taxes. For now, neither the general terms nor Trump’s executive order mention the DST, which suggests that the issue may be deferred to future negotiations or set aside altogether. The lack of clarity on this point leaves open questions about how a final trade agreement will address digital trade.

The events of the past few weeks demonstrate the continued uncertainty for businesses engaging in cross-border exports and supply chains across the U.S. and U.K., and highlight the importance of actively tracking developments in the trade landscape. Ongoing negotiations may indeed change the scope and implementation of the EPD.