

# CRS Report for Congress

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## The European Union: Questions and Answers

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### Summary

This report provides answers to key questions related to the European Union (EU). It describes the EU's evolution, its governing institutions, trade policy, and efforts to forge common foreign and defense policies. The report also addresses the EU-U.S. and EU-NATO relationships. It will be updated as events warrant. For more information, see CRS Report RS21344, *European Union Enlargement*, and CRS Issue Brief IB10087, *U.S.-European Union Trade Relations: Issues and Policy Challenges*.

### What Is the EU?

The EU is a treaty-based, institutional framework that defines and manages economic and political cooperation among its 25 member states (Austria, Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom). The Union is the latest stage in a process of European integration begun after World War II to promote peace and economic prosperity in Europe. Its founders hoped that by creating communities of shared sovereignty — initially in areas of coal and steel production, trade, and nuclear energy — another war in Europe would be unthinkable. Since the 1950s, this European integration project has expanded to encompass other economic sectors, a customs union, a single market in which goods, people, and capital move freely, a common agricultural policy, and a common currency (the euro). Over the last decade, EU member states have taken significant steps toward political integration as well, with decisions to develop a common foreign policy and closer police and judicial cooperation.

### How Does the EU Work?

The EU represents a unique form of cooperation among sovereign states; it has been built through a series of binding treaties. EU members work together through common institutions (see next question). The EU is divided into three “pillars;” subjects and decision-making processes differ in each. Pillar One is the European Community, which encompasses economic, trade, and social policies ranging from agriculture to education. In Pillar One areas — by far the most developed and far-reaching — members have largely pooled their national sovereignty and work together in EU institutions to set policy

and promote their collective interests. Decisions in Pillar One often have a supranational character because most are made by a majority voting system. Pillar Two aims to establish a Common Foreign and Security Policy (CFSP) to permit joint action in foreign and security affairs. Pillar Three seeks to create a Justice and Home Affairs (JHA) policy to foster common internal security measures and closer police and judicial coordination. Under Pillars Two and Three, members have agreed to cooperate but decision-making is intergovernmental and by consensus. Thus, members retain more discretion and the right to veto certain measures.

## How Is the EU Governed?

The EU is governed by several institutions. They do not correspond exactly to the traditional division of power in democratic governments. Rather, they embody the EU's dual supranational and intergovernmental character:

- The *European Commission* is essentially the EU's executive and has the sole right of legislative initiative. It upholds the interests of the Union as a whole and ensures that the provisions of the EU treaties are carried out properly. The 25 Commissioners are appointed by the member states for five-year terms. Each Commissioner holds a distinct portfolio (e.g., agriculture). The Commission represents the EU internationally and negotiates with third countries primarily in areas falling under Pillar One. However, the Commission is primarily an administrative entity that serves the Council of Ministers.
- The *Council of the European Union (Council of Ministers)* is comprised of ministers from the national governments. As the main decision-making body, the Council enacts legislation based on proposals put forward by the Commission. Different ministers participate depending on the subject under consideration (e.g., economics ministers could convene to discuss unemployment policy). Most decisions are made by majority vote, but some areas — such as CFSP and taxation — require unanimity. The Presidency of the Council rotates among the member states for a period of six months.
- The *European Council* brings together the Heads of State or Government of the member states and the Commission President at least twice a year. It acts principally as a strategic guide and driving force for EU policy.
- The *European Parliament* consists of 732 members. Since 1979, they have been directly elected in each member state for five-year terms under a system of proportional representation based on population. The Parliament cannot initiate legislation like national parliaments, but it shares “co-decision” power with the Council of Ministers in a number of areas, and can amend or reject the EU's budget.
- The *Court of Justice* interprets EU law and its rulings are binding; a *Court of Auditors* monitors the EU's financial management. A number of *advisory bodies* represent economic, social, and regional interests.

## **Why and How Is the EU Enlarging?**

The EU sees enlargement as crucial to promoting stability and prosperity in Europe, and furthering the peaceful integration of the continent. The EU began as the European Coal and Steel Community in 1952 with six members (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands). Denmark, Ireland, and the U.K. joined in 1973, Greece in 1981, Spain and Portugal in 1986, and Austria, Finland, and Sweden in 1995. With the end of the Cold War, the EU saw an historic opportunity to extend the political and economic benefits of membership to central and eastern Europe. On May 1, 2004, the EU welcomed 10 states (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia) as new members. Bulgaria and Romania completed accession negotiations in December 2004 and hope to join the EU in 2007. Accession negotiations establish the terms under which applicants will meet and enforce EU rules and regulations. Turkey was recognized as an EU candidate in 1999 but remained in a separate category for several years as it sought to comply with the EU's political and economic criteria for membership. In December 2004, the EU agreed to open accession talks with Turkey in October 2005, provided that Turkey continues to make progress on reforms and extends its customs union to the EU's 10 new members, including Cyprus. Turkey's membership talks are expected to take at least a decade to complete, and the EU has cautioned that the negotiations are an "open-ended process, the outcome of which cannot be guaranteed." In June 2004, the EU named Croatia as another candidate, and Macedonia has also applied for EU membership.

## **What Is the EU "Constitution"?**

In July 2003, European officials finished work on a draft "constitution" that merges the EU's four existing treaties into a single document and lays out new proposals for institutional reform. This draft "constitution" — or constitutional treaty — was produced by the 105-member Convention on the Future of Europe, which had been charged with overhauling the EU's institutions and decision-making processes to enable an enlarged EU of 25 or more members to function effectively. The Convention also sought to boost the EU's visibility on the world stage and the Union's democratic legitimacy. In October 2003, the EU convened an Intergovernmental Conference to debate the Convention's draft "constitution" and to codify any alterations of the EU's functions. After some contentious debates, EU leaders concluded work on this "constitution" in June 2004. It must now be ratified by all EU members; thus the "constitution" will probably not take effect until 2006 at the earliest. Some member states will hold public referenda on ratification, which could prove controversial in states with significant numbers of Euro-skeptic voters.

Many of the provisions in the new "constitution" represent compromises between big and small states, and between states that favor greater EU integration and possibly an eventual, federal "United States of Europe," and those that prefer to keep the Union on an intergovernmental footing in which members can better guard their national sovereignty. Major innovations include abolishing the EU's rotating presidency and appointing a single individual to serve as president of the European Council for up to five years, creating a new foreign minister, and simplifying EU voting procedures.

## **Does the EU Have a Foreign Policy?**

The EU is seeking to build a Common Foreign and Security Policy (CFSP). Past attempts to further EU political integration foundered on national sovereignty concerns and different foreign policy prerogatives. But in 1993, EU members concluded that the Union must increase its weight in world affairs to match its growing economic clout. CFSP decision-making is dominated by member states; they develop common policies in areas in which they can reach consensus, and ensure that national policies are in line with agreed EU strategies and positions (e.g., imposing sanctions on Serbia). In 1997, EU leaders proposed creating a High Representative for CFSP; in 1999, they appointed Javier Solana, NATO's former Secretary General, to the position, which is often referred to as "Mr. CFSP". Many analysts credit Solana with boosting the EU's "visibility" on the world stage, and with forging EU consensus on issues such as the Balkans and the Middle East peace process. Skeptics argue, however, that the EU is still far from speaking with one voice on other key foreign policy challenges, such as Iraq.

The European Commission also plays a role internationally, but should not be confused with CFSP or its High Representative. Benita Ferrero-Waldner, the External Relations Commissioner, coordinates the Commission's diplomatic activities and manages its aid to non-member states. The EU "constitution," if approved, would combine the Ferrero-Waldner and Solana posts into a single EU foreign minister position.

## **Does the EU Have a Defense Policy?**

The EU is also attempting to forge a European Security and Defense Policy (ESDP) to give CFSP a military backbone and provide member states with more tools for dealing with future crises. Momentum for this project picked up speed in 1998, when U.K. Prime Minister Tony Blair reversed Britain's traditional opposition to a European defense identity outside NATO; it intensified after NATO's 1999 Kosovo air campaign exposed serious European military deficiencies. In December 1999, the EU decided to establish an institutional decision-making framework for ESDP, and a 60,000-strong rapid reaction force by 2003 — able to deploy within 60 days for at least a year — to undertake the "Petersberg tasks" (humanitarian assistance, search and rescue, peacekeeping, and peace enforcement). In June 2004, the EU agreed to enhance ESDP further through the creation of several "battlegroups" of 1,500 troops each that will be able to reach trouble spots, especially in Africa, within 15 days. Some members believe that the EU should develop a combat capability equivalent, for example, to NATO's role in the 1999 Kosovo conflict. But EU forces will not form a standing "EU army"; rather, troops and assets at appropriate readiness levels will be drawn from existing national forces in the event of an EU operation. The EU has created three defense decision-making bodies, but improving military capabilities has been difficult, especially given flat or declining European defense budgets. Serious capability gaps exist in strategic airlift, command and control systems, intelligence, and other force multipliers.

## **What is the Relationship between NATO and the EU?**

The EU asserts that ESDP is intended to allow the EU to make decisions and conduct military operations "where NATO as a whole is not engaged;" ESDP is not aimed at usurping NATO's collective defense role. Most EU NATO members, led by the U.K.,

insist that EU efforts to forge a defense arm be tied to NATO, as do U.S. policymakers. Advocates argue that building more robust European military capabilities for ESDP will also benefit the alliance. France — the other key driver of ESDP — would prefer a more autonomous EU defense arm. The EU and NATO hold regular meetings at ambassadorial and ministerial level. In December 2002, the EU and NATO resolved a long-running dispute between Greece and Turkey that had been holding up final agreement on “Berlin Plus” — an arrangement permitting the EU “assured access” to NATO operational planning capabilities and “presumed access” to NATO common assets. “Berlin Plus” was designed to help ensure close NATO-EU links, and prevent a wasteful duplication of resources. With “Berlin Plus” in place, the EU took over a small NATO peacekeeping operation in Macedonia from March to December 2003. In December 2004, the EU took over the NATO-led force in Bosnia. An EU planning cell will soon be established at NATO headquarters and NATO liaison officers will be stationed at the EU.

## **Does the EU Have a Trade Policy?**

Yes. EU member states have a common external trade policy in which the European Commission negotiates trade deals with other countries and trading blocs on behalf of the Union as a whole. The EU’s trade policy is one of its most well-developed and integrated policies. It evolved along with the common market, which provides for the free movement of goods within the EU, to prevent one member state from importing foreign goods at cheaper prices due to lower tariffs and then re-exporting the items to another member with higher tariffs. The scope of the common trade policy has since been extended to include negotiations on services and intellectual property. The Council of Ministers has the power to establish objectives for trade negotiations and can approve or reject agreements reached by the Commission. EU rules allow the Council to make trade decisions with a weighted voting system, but in practice, the Council tends to employ consensus. The Commission and the Council work together to set the common customs tariff, guide export policy, and decide on trade protection or retaliation measures where necessary. The EU also plays a leading role in the World Trade Organization (WTO).

## **How Are U.S.-EU Trade Relations Doing?**

The United States and the EU share the largest trade and investment relationship in the world, with annual two-way flows of goods, services, and foreign direct investment exceeding \$1.1 trillion, and total stock of two-way direct investment reaching over \$1.6 trillion. Most of this economic relationship is harmonious, but trade tensions persist. The EU welcomed the repeal of the U.S. export tax subsidy in October 2004, and ended trade sanctions in January 2005 imposed on the basis of a WTO ruling; the EU remains unhappy, however, with parts of the U.S. legislation that leave the tax breaks in place for contracts already signed on aircraft and other heavy goods. U.S. exports may also face EU retaliation for the Byrd Amendment, which disburses anti-dumping duties to affected domestic producers. Meanwhile, Washington has lodged a WTO case against the EU’s ban on approvals of genetically-modified products, and a U.S.-EU trade dispute over beef hormones also remains. At the same time, the United States and the EU have been working to diffuse confrontation in the WTO over government subsidies for their respective aircraft manufacturers, Boeing and Airbus. Many analysts note that resolving U.S.-EU trade disputes has become increasingly difficult, perhaps partly because both sides are of roughly equal economic strength and neither has the ability to impose

concessions on the other. Another factor may be that many disputes involve clashes in different domestic values, political priorities, and regulatory systems. Nevertheless, fears of an all-out trade war are usually exaggerated.

## **Does the United States Have a Formal Relationship with the EU?**

Yes. For decades, the United States and the EU (and its progenitors) have maintained diplomatic and economic ties. Washington has strongly supported European integration, and U.S.-EU trade and investment relations are extensive. The 1990 U.S.-EU Transatlantic Declaration set out principles for greater consultation, and established regular summit and ministerial meetings. In 1995, the New Transatlantic Agenda (NTA) and the EU-U.S. Joint Action Plan provided a framework for promoting stability and democracy together, responding to global changes, and expanding world trade. The NTA also sought to strengthen individual ties across the Atlantic, and launched a number of dialogues, including ones for business leaders and legislators.

## **Who Are U.S. Officials' Counterparts in the EU?**

At least once a year, the U.S. president meets with the president of the European Commission and the EU's rotating presidency, represented by the head of government whose country holds it at the time of the meeting. For example, at the regular U.S.-EU summit in June 2004, President Bush met with then-Commission President Romano Prodi and Prime Minister Bertie Ahern of Ireland, the presidency country during the first half of 2004. The U.S. Secretary of State's most frequent interlocutors are the High Representative for CFSP, the External Relations Commissioner, and the foreign minister of the EU presidency country. The U.S. Trade Representative's key interlocutor is the European Commissioner for Trade, who directs the EU's common external trade policy. Other U.S. cabinet-level officials interact with Commission counterparts or member state ministers in Council formation as issues arise. Numerous working-level relationships between U.S. and EU officials also exist. A Delegation in Washington, DC represents the European Commission in its dealings with the U.S. government, while the U.S. Mission to the European Union represents Washington's interests in Brussels.

## **How Do European Countries View the EU?**

All EU member states believe that the Union magnifies their political and economic clout, i.e., the sum is greater than the parts. Nevertheless, the EU has always been divided between those members — such as Germany — that seek an “ever closer union” through greater integration, and those that prefer to keep the Union on an intergovernmental footing. For example, the U.K. has more frequently sought to guard its national sovereignty and, along with Denmark and Sweden, does not participate in the single European currency (the euro). Another classic divide in the EU falls along big versus small state lines. Small states are often cautious of initiatives that they fear could allow EU heavyweights to dominate the Union. For instance, smaller states initially resisted abolishing the EU's rotating presidency in favor of an appointed individual because they worried it could mean a loss of influence and equal standing for them. Another key difference relates to security postures; Austria, Finland, Ireland, and Sweden practice non-aligned foreign and defense policies, which sometimes complicates the formulation of common European positions in these areas.