



The European Union: Questions and Answers

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Summary

The European Union (EU) is a unique economic and political partnership in which 27 countries share sovereignty over an extensive range of policy areas. With strong U.S. support and encouragement, a group of European statesmen began this process of integration after World War II with the hope of ensuring peace on the continent. Over the years, additional economic and political rationale have emerged to support further integration.

Although some issues require unanimous consensus among member countries, EU decision-making is supranational on most economic and social issues. The three main institutions of the EU are the European Commission (essentially the EU's executive), the Council of the European Union (representing the national governments), and the European Parliament (representing the citizens of the EU). The yet-to-be-ratified Lisbon Treaty is the EU's latest attempt to reform its institutional arrangements and decision-making procedures. Enlargements in 2004 and 2007 increased the number of member countries in the EU from 15 to 27.

The EU has a strong common trade policy, and a developing Common Foreign and Security Policy (CFSP) for a more united voice in global affairs. It has also been developing a European Security and Defense Policy (ESDP) in order to improve its military capabilities and capacity to act independently. Although some shortcomings exist in EU-NATO relations, the two institutions continue to seek a more cooperative and complementary relationship.

The United States and the EU share a large, mutually beneficial trade and investment relationship. The global financial crisis and recession has challenged both sides to forge a common response. The United States and EU have a number of lingering trade disputes, but have led the push to liberalize world trade, and have sought to reduce non-tariff and regulatory barriers in the transatlantic marketplace. With compatible worldviews on most global issues, the United States and the EU also have a well-developed and cooperative political relationship.

This report provides a summary overview of these issues, many of which may be of interest to the 111th Congress. It will be updated as events warrant.

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What Is the European Union?

The European Union (EU) is an economic and political partnership that is unique in history. Built upon a series of treaties and embodied in a set of governing institutions, the EU represents a voluntary pooling of sovereignty among 27 countries.¹ These countries have committed to a process of integration by harmonizing laws and adopting common policies on an extensive range of issues. Notable areas of shared sovereignty include a customs union; a common trade policy; a single market in which goods, people, and capital move freely; a common currency (the euro) that is used by 16 member states;² and many aspects of social and environmental policy. EU member states have also taken significant steps in the development of a Common Foreign and Security Policy (CFSP) and closer police and judicial cooperation.

Why Integration?

In the 1950s, a group of European leaders hoped that by creating communities of shared sovereignty and interdependence, another war in Europe would be made unthinkable. At first, Belgium, France, Germany, Italy, Luxembourg, and the Netherlands agreed to jointly manage their coal and steel industries. These six then began working toward increasing economic integration and developing a common market, and also agreed to cooperate on atomic energy. Over the ensuing decades, as integration helped underpin Europe's post-war economic success, peace and prosperity became the mutually reinforcing, fundamental rationale for deepening (increasing the degree of integration) and widening (adding new countries). More recently, additional reasons have grown in importance: proponents of integration argue that in addition to economic challenges, problems such as terrorism, immigration, and the environment can no longer be dealt with effectively at a national level alone. Many also believe that a united voice in foreign policy and security matters is increasingly essential for European influence in world affairs.

How Does the EU Work?

EU policy areas are conceptually divided into three “pillars.” Pillar One includes a wide range of economic (e.g., trade, agriculture, customs union, single market,) and social (e.g., health, research, education, immigration, environment, consumer protection) policies. Integration in these areas is the most developed and far-reaching. Pillar One decision-making is supranational—EU institutions hold executive authority and can impose binding decisions on national governments. Pillar Two is the EU Common Foreign and Security Policy, and Pillar Three is police and judicial cooperation in criminal matters. Decision-making in Pillar Two and Pillar Three is intergovernmental—agreement between member state governments must be unanimous and any one may veto a decision.

¹ The member countries of the EU are Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

² The members of the Eurozone are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

How is the EU Governed?

Three institutions are central to EU decision- and policy-making. They do not correspond exactly to the traditional branches of government or division of power in representative democracies.

The *European Commission* upholds the common interest of the EU as a whole. The Commission is essentially the EU's executive: it implements and manages Council decisions and common policies, ensuring that member states adopt and abide by the provisions of EU treaties, regulations, and directives. The Commission is the EU's primary administrative entity. In most cases, the Commission has the sole right of legislative initiative and proposes legislation to the Council. The 27 commissioners, one from each country, are appointed by member state consensus to five-year terms. One is selected to lead and represent the Commission as the Commission President. The others hold a distinct portfolio (e.g., agriculture, energy, external relations), with five double-hatted as Vice Presidents in addition to their portfolio. On many issues, the Commission represents the EU internationally and handles negotiations with outside countries.

The *Council of the European Union* (also called the *Council of Ministers*) represents the national governments. The main decision-making body of the EU, the Council enacts legislation, usually based on proposals put forward by the Commission. A minister from each country takes part in Council meetings, with participation configured according to the subject under consideration (e.g., foreign ministers would meet to discuss the Middle East, agriculture ministers to discuss farm subsidies). Most decisions are made by qualified majority vote, but some areas—such as foreign and defense policy, taxation, amending EU treaties, or accepting new members—require unanimity.³ Council decisions are generally taken in consultation or “co-decision” with the European Parliament. The Presidency of the Council rotates among the member states, changing every six months. The presidency country sets agenda priorities and organizes the work of the Council.

The *European Parliament* represents the citizens of the EU. The Parliament consists of 785 members (reduced to 736 as of June 2009) who are directly elected in each member state for five-year terms. Each member state holds a number of seats proportional to the size of its population. Members of the European Parliament (MEP) caucus according to trans-national groups based on political affiliation, rather than by country.⁴ The Parliament cannot initiate legislation, but it has numerous important powers of oversight and supervision. It shares “co-decision” power with the Council of Ministers in many areas, can amend and reject the EU's budget, and can vote to dismiss the Commission.

A number of other institutions also play important roles in the EU. The *European Council* is composed of the Heads of State or Government of the member states plus the Commission President. Meeting at least twice a year (in what are often termed “EU

³ In qualified majority voting, countries are allotted a number of votes in rough proportion to their population size. Passage of a measure requires a double majority: at least half of the member states (two-thirds if not a Commission initiative) and 255 out of the 345 total votes. Votes must also represent at least 62% of the total EU population.

⁴ There are currently 7 political groups in the European Parliament: the Group of the European People's Party (Christian Democrats) and European Democrats (288 MEPs); the Socialist Group in the European Parliament (216); the Group of the Alliance of Liberals and Democrats for Europe (99); the Union of Europe for the Nations Group (44); the Group of the Greens/European Free Alliance (43); the Confederal Group of the European United Left-Nordic Green Left (41); and the Independence/Democracy Group (21). There are also 30 non-attached MEPs.

Summits”), the European Council acts principally as a strategic guide for EU policy. The *Court of Justice* interprets EU laws and rules on compliance; a *Court of Auditors* monitors financial management; the *European Central Bank* manages the euro and monetary policy; and *advisory committees* represent economic, social, and regional interests.

What is the Lisbon Treaty?

In December 2007, EU leaders approved the Lisbon Treaty, seeking to amend existing EU treaties with a number of significant reforms. In order to come into force, the treaty must be ratified by all 27 member states. Leaders had initially hoped that ratification would be complete in the first half of 2009, but Ireland’s rejection of the treaty in a June 2008 national referendum threw the timetable for adoption into disarray. Three other countries have not completed formal ratification, but Ireland is the only country to decide ratification of the Lisbon Treaty by referendum. Ireland plans to try again with a second vote, possibly in October 2009.

The major aims of the Lisbon Treaty are to streamline institutional decision-making, to give the EU a stronger and more coherent global voice and identity, and to increase democracy and transparency within the EU. Supporters argue that these reforms are needed for an EU of 27 members to function—the most recent update, the Nice Treaty, was designed for an EU of 15 members. The treaty would create a new position, President of the European Council, that would replace the six-month rotating presidency system with an individual elected to a two-and-a-half year term. Another new position would make a single representative for EU foreign and security policy, combining the duties of the Council’s High Representative for CFSP and the Commissioner for External Relations. The Lisbon Treaty would increase the number of areas decided by qualified majority voting—although issues such as CFSP and taxation would still be subject to unanimous intergovernmental consensus. The treaty would also increase the power of the European Parliament by expanding use of the co-decision procedure, give national parliaments more of a role in EU policy-making, and allow for new proposals based on citizen initiatives. The Lisbon Treaty would do away with the “pillar” structure and give the EU a single legal personality.

The Lisbon Treaty follows the failure of the EU constitutional treaty, a major reform effort that was shelved after its rejection in referendums held in France and the Netherlands in 2005. Legally speaking, the constitutional treaty would have wholly replaced, rather than amended, existing EU treaties; however, analysts have noted that the Lisbon Treaty preserves over 90% of the substance of the constitutional treaty.

How Do European Countries View the EU?

All member states hold that the EU brings them important political and economic benefits. Nevertheless, tensions have long existed within the EU between those seeking an “ever closer union” through greater integration and those that prefer a more intergovernmental footing. Concerns about the impingement of the EU on national sovereignty have played out in decisions to “opt out” of certain aspects of integration, such as passport- and visa-free travel within the EU (UK and Ireland), the euro (UK, Denmark, and Sweden), Justice and Home Affairs issues (UK, Ireland, and Denmark), and the common defense policy (Denmark). 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 a few large states to dominate decision-making. In addition, the newer member states of central and eastern Europe have recent histories of Communism and Soviet domination, which impact their view on issues such as relations with Russia, EU treaties and decision-making arrangements, and even climate change policy. At times, such differences have caused frictions with western European member states and slowed EU decision-making.

The prevailing view among European citizens is likewise favorable toward the EU, and many assert a general perception that the EU benefits them in important ways. Some observers have noted that, owing largely to the EU, many of the continent's citizens describe a European identity layered on top of national, regional, and local identities. However, there is also a certain amount of "Euro-skepticism" among a significant portion of Europe's citizens. Concerns over the loss of national sovereignty are one central element of this sentiment. Some citizens assert that there is a "democratic deficit"—a feeling that one has no say over decisions taken in far away Brussels. Others view the EU as a giant bureaucracy that delivers few concrete benefits. Some observers suggest that the benefits and founding ideals of the EU—peace and prosperity—may not ring as loudly among younger generations with no experience of war or economic hardship.

Why and How Is the EU Enlarging?

Many observers have regarded EU enlargement as crucial to expanding stability and prosperity across Europe. In order to be eligible for membership, countries must first meet criteria for democracy, rule of law, and economic policy. Observers have noted that the prospect of membership can act as an incentive for countries to adopt beneficial reforms in order to qualify. Once a country becomes an official candidate, accession negotiations are a long and complex process in which the applicant must adopt and implement a massive body of EU laws, treaties, and regulations that now cover 35 "chapters" (subject areas).

In 1973, Denmark, Ireland, and the United Kingdom joined the six pioneer countries (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands). Greece joined in 1981, Spain and Portugal in 1986, and Austria, Finland, and Sweden in 1995. In 2004, the EU welcomed eight formerly communist countries of central and eastern Europe—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia—plus Cyprus and Malta. Bulgaria and Romania joined in 2007. Following these latest rounds, some Europeans have spoken of "enlargement fatigue" and advocated pausing enlargement pending the enactment of internal reforms that allow an EU of 27-plus members to function more smoothly.

Further enlargement is likely to focus on the Balkans—Croatia and Macedonia are officially considered candidates for accession, and Albania, Bosnia-Herzegovina, Kosovo, Montenegro, and Serbia are potential candidates down the road. There are indications that Iceland may apply for membership, an effort that would likely receive quick approval. Turkey has also had a long-standing bid for EU membership. Whether owing to its demographic, geographic, economic, or cultural characteristics, many Europeans are opposed to the idea of Turkish EU membership. Many analysts believe that the final outcome of EU accession negotiations with Turkey is uncertain. The status of Turkey's application is a frequent source of tension between Turkey and the EU.

Does the EU Have a Foreign Policy?

The EU has a Common Foreign and Security Policy (CFSP) in which member states agree to adopt shared positions, undertake joint actions, and pursue coordinated strategies. Since CFSP decision-making is intergovernmental and requires unanimity, all 27 members must agree that a common EU stance is the most desirable and effective approach to a given issue, and all 27 members must agree on the terms of that stance. CFSP does not preclude individual member states pursuing their own national foreign policies or conducting their own national diplomacy.

Proponents of expanding CFSP assert that the EU must increasingly speak with one voice in foreign and security policy if its global weight and influence are to match its economic clout. Skeptics argue, however, that the reach and credibility of CFSP too often suffers from an inability to reach consensus. While EU countries do often have similar worldviews and international goals, some differences in viewpoint are inevitable among 27 countries that still retain different approaches, cultures, histories, and relationships—and often different national interests—when it comes to foreign policy.

Currently, two major positions represent the EU externally. The High Representative for CFSP (Javier Solana) represents the Council of the EU in CFSP matters, such as negotiations with Iran, EU military missions, counterterrorism policy, sanctions, and a wide range of other issues on which CFSP declarations have been agreed. The Commissioner for External Relations (Benita Ferrero-Waldner) represents the EU in general dialogue and cooperation with outside countries, including aid and development support and European Neighborhood Policy, in which the EU seeks to build close partnerships with its southern and eastern neighbors. The Lisbon Treaty, if approved, would combine these posts into a single position—High Representative for Foreign Affairs and Security Policy/Vice President of the Commission. The treaty would also create an EU diplomatic corps (European External Action Service) to support the High Representative.

Does the EU Have a Defense Policy?

The EU has been developing its European Security and Defense Policy (ESDP), which was formally launched in 1999. The main purpose of ESDP is twofold: to help build up European military capabilities, and to give the EU a capacity for separate action in cases where NATO is not engaged. Through a series of “Headline Goals,” the EU has set targets for the development of forces and capabilities. Forces under development include a rapid reaction force and multinational “battlegroups.” ESDP operations focus largely on tasks such as peacekeeping, crisis management, and humanitarian assistance. ESDP does not mean a standing “EU army,” but rather a catalogue of forces that member countries could make available for EU missions. The EU is currently engaged in some 12 ESDP missions in the Balkans, Africa, Caucasus, and the Middle East, and has completed an additional 10 missions in previous years. However, improving military capabilities has been difficult, especially given flat or declining European defense budgets. Serious capability gaps continue to exist in areas such as strategic airlift and sealift, and a relatively low percentage of European forces are deployable for expeditionary operations. Some analysts have suggested asset pooling and a greater focus on national niche capabilities as a way forward for European defense. Reflecting such thinking, the EU created the European Defense Agency in 2004 in order to help coordinate defense-industrial and procurement policy.

What is the Relationship of the EU to NATO?

Despite overlapping membership and interests, NATO and the European Union have struggled to establish a cooperative and complementary relationship.⁵ In the United States and some other NATO countries such as the UK, support for ESDP as a means for Europe to develop security capabilities has mostly overcome initial concerns that ESDP would mean decoupling/delinking (from NATO strategy and decision making), duplication (of NATO structures and resources), and discrimination (against non-EU members of NATO). The 2003 Berlin Plus agreement, allowing EU-led missions access to NATO assets and planning capabilities, remains the biggest step forward to date and the cornerstone of EU-NATO relations. Berlin Plus reflects a pragmatic conclusion that NATO and the EU need not be competitors, but are better served as partners sharing a pool of resources and offering each other an array of complementary capabilities.

While EU-NATO cooperation exists at the tactical level, procedural blockage related to EU-Turkey tensions and the issue of divided Cyprus prevents the two institutions from sharing sensitive intelligence information, thereby hindering their ability to cooperate on matters of strategic importance. Some analysts argue that this impasse needs to be resolved to allow greater EU-NATO cooperation. An enhanced EU-NATO relationship might include joint planning in areas such as crisis management, defense policy, and procurement, as well as more formal coordination of complementary capabilities for expeditionary missions, stabilization and reconstruction operations, and security sector reform programs.

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 outside 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—preventing 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 been extended to include negotiations on services and intellectual property in some cases. 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 qualified majority voting, 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).

⁵ 21 countries belong to both NATO and the EU. There are six non-NATO members of the EU (Austria, Cyprus, Finland, Ireland, Malta, and Sweden) and seven non-EU members of NATO (Albania, Canada, Croatia, Iceland, Norway, Turkey, and the United States).

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 for business leaders and legislators. The Transatlantic Legislators' Dialogue (TLD) has been the formal mechanism for engagement and exchange between the U.S. House of Representatives and the European Parliament since 1972.

The United States also maintains strong bilateral ties with individual EU member states. Some observers call for a further strengthening of the U.S.-EU relationship, arguing that U.S. engagement at the EU level—rather than bilaterally with individual capitals—is the most relevant and effective approach in a large and growing number of issues.

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

U.S.-EU Summits occur at least once a year, with the U.S. president meeting with the president of the European Commission and the Head of State or Government of the country holding the rotating Council presidency. The U.S. Secretary of State's most frequent interlocutors in the EU context 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 the Council of Ministers context as issues arise. Many 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 Are U.S.-EU Economic Relations Doing?

Comprising nearly 60% of global gross domestic product (GDP), the U.S.-EU trade and investment relationship is the largest and most influential in the world. In 2007, the value of the two-way transatlantic flow of goods, services, and income receipts from investment totaled more than \$1.6 trillion. U.S. and European companies are also the biggest investors in each other's markets: total stock of two-way direct investment exceeded \$2.6 trillion by the end of 2007.

The global financial crisis and recession have posed difficult challenges to both sides and raised concerns about the adoption of protectionist policies. While leaders have pursued a coordinated response through the G-20, different preferences have emerged in the process. At the April 2009 G-20 Summit in London, European leaders resisted U.S. calls for further stimulus spending, focusing instead on efforts to reform regulation of the global financial system. Leaders agreed to

a package worth around \$1 trillion in extra resources for the International Monetary Fund and financing for global trade.

Although an inability to reach a transatlantic agreement on agricultural subsidies has contributed to stalling the Doha Round of trade negotiations, U.S.-EU cooperation has been the key driving force behind efforts to liberalize world trade. Transatlantic trade disputes persist over poultry, subsidies to Boeing and Airbus, hormone-treated beef, and bio-engineered food products. The United States and the EU have made a number of attempts to reduce remaining non-tariff and regulatory barriers to trade and investment. The Transatlantic Economic Council (TEC) was created at the 2007 U.S.-EU summit and tasked with advancing the process of regulatory cooperation and barrier reduction. 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 differences in regulatory frameworks, political priorities, and domestic values and preferences.

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