



The European Union: Questions and Answers

Kristin Archick

Specialist in European Affairs

Derek E. Mix

Analyst in European Affairs

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Summary

The European Union (EU) is an economic and political partnership that represents a unique form of cooperation among its 27 sovereign member states. The Union is the latest stage of a process of integration begun after World War II to promote peace, stability, and economic prosperity in Europe. The United States has strongly supported the EU and its progenitors as a means to foster democratic states and robust trading partners.

The EU has been built through a series of binding treaties and EU member states have committed to a process of integration by harmonizing laws and adopting common policies on an extensive range of issues. For most economic and social issues, EU member states have largely pooled their national sovereignty and EU decision-making has a supranational quality. Decisions in other areas, such as foreign policy, require unanimous consensus among member states.

EU member states work together through common institutions to set policy and to promote their collective interests. 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 newly ratified Lisbon Treaty is the EU's latest attempt to reform its institutional arrangements and decision-making procedures in order to enable an enlarged EU to function more effectively.

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 seeking to build a Common Security and Defense Policy (CSDP) 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. Over the last decade especially, the EU has also been working to forge common internal security measures in the Justice and Home Affairs (JHA) field, including by boosting police and judicial cooperation and enhancing the Union's ability to combat terrorism and other cross-border crimes.

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.

This report provides a summary overview of these issues, many of which may be of interest to the second session of the 111th Congress. For more information, also see CRS Report RS21618, *The European Union's Reform Process: The Lisbon Treaty*, by Kristin Archick and Derek E. Mix, and CRS Report RS21998, *The European Parliament*, by Kristin Archick and Derek E. Mix.

Contents

What Is the European Union?.....	1
How Does the EU Work?	1
How Is the EU Governed?.....	2
What Is the Lisbon Treaty?.....	3
Why and How Is the EU Enlarging?	4
Does the EU Have a Foreign Policy?.....	5
Does the EU Have a Defense Policy?	5
What Is the Relationship of the EU to NATO?.....	6
What Is Justice and Home Affairs (JHA)?	7
Does the EU Have a Trade Policy?	7
How Do EU Countries and Citizens View the EU?	8
Does the United States Have a Formal Relationship with the EU?	8
Who Are U.S. Officials' Counterparts in the EU?	9
How Are U.S.-EU Economic Relations Doing?	9

Contacts

Author Contact Information	10
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What Is the European Union?

The European Union (EU) is an economic and political partnership that represents a unique form of cooperation among its 27 sovereign member states (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). The Union is the latest stage of a process of integration begun after World War II to promote peace and economic prosperity in Europe. Its founders hoped that by creating communities of shared sovereignty and interdependence—initially in areas of coal and steel production, economics and trade, and nuclear energy—another war in Europe would be unthinkable. Since the 1950s, this European integration project has expanded to encompass many economic sectors, a customs union, a single market in which goods, people, and capital move freely, a common trade policy, a common agricultural policy, a common currency (the euro) that is used by 16 member states,¹ and many aspects of social and environmental policy. Since the mid-1990s, EU member states have also taken significant steps toward political integration, with decisions to develop a common foreign policy and closer police and judicial cooperation.

How Does the EU Work?

The EU has been built through a series of binding treaties and EU member states have committed to a process of integration by harmonizing laws and adopting common policies on an extensive range of issues. EU member states work together through common institutions (see next question) to set policy and promote their collective interests.

Until recently, EU policy areas were conceptually divided into three “pillars” and decision-making processes differed in each. Pillar One was the European Community, which encompassed a multitude of economic and social policies ranging from trade and agriculture to education and the environment. In Pillar One areas, integration was (and remains) the most developed and far-reaching; member states have largely pooled their national sovereignty and EU institutions hold executive authority. Policy decisions in Pillar One areas often had a supranational character because most were subject to a complex majority voting system. Pillar Two established a Common Foreign and Security Policy (CFSP) to permit joint action in foreign and security affairs. Pillar Three sought 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, member states agreed to cooperate but decision-making was intergovernmental and required unanimity. As a result, member states retained more discretion over their participation as any one member could veto a decision.

However, the EU’s newly ratified Lisbon Treaty (see below) technically does away with this “pillar” structure. In an effort to improve the efficiency of EU decision-making, the Lisbon Treaty extends the use of the EU’s majority voting system beyond the traditional Pillar One field to many additional policy areas, including most JHA issues. Unanimous decision-making is retained

¹ The 16 members of the EU that use the euro are: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

in some areas, including for most aspects of foreign and defense policy (i.e., the former Pillar Two), as well as tax matters and social security.

In effect, the Lisbon Treaty attempts to make the need for unanimity in EU decision-making the exception rather than the rule. Nevertheless, in practice, member states will likely still strive for consensus on sensitive policy issues (such as police cooperation, immigration, and countering terrorism) that are usually viewed as central to a nation-state's sovereignty. At the same time, the mere possibility of a vote may make member state governments more willing to compromise and reach a common policy decision.

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. Rather, they embody the EU's dual supranational and intergovernmental character:

- The *European Commission* upholds the common interest of the Union as a whole. The Commission is essentially the EU's executive: it implements and manages EU decisions and common policies, and ensures that member states adopt and abide by the provisions of EU treaties, regulations, and directives. In most cases, the Commission has the sole right of legislative initiative. The 27 Commissioners, one from each country, are appointed by agreement among the member states 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, trade). On many issues, the Commission represents the EU internationally and handles negotiations with outside countries. The Commission is also the EU's primary administrative entity.
- The *Council of the European Union* (also called the *Council of Ministers*) represents the national governments. As 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 subject to a complex qualified majority voting system, but some areas—such as foreign and defense policy, taxation, amending EU treaties, or accepting new members—require unanimity. The Presidency of the Council rotates among the member states, changing every six months. The presidency country sets agenda priorities and organizes most of the work of the Council.
- The *European Parliament* represents the citizens of the EU. The Parliament currently consists of 736 members who are directly elected in each member state for five-year terms. Each member state holds a number of seats approximately proportional to the size of its population. The Parliament cannot initiate legislation like national parliaments, but it shares “co-decision” power with the Council of Ministers in many areas, and can amend or reject the EU's budget. The Parliament must also approve incoming Commissions and can vote to dismiss the entire Commission. Members of the European

Parliament (MEPs) caucus according to transnational groups based on political affiliation, rather than by nationality.²

- A number of other institutions also play key roles in the EU. The *European Council* is composed of the Heads of State or Government of the member states, plus its President as well as the President of the European Commission. Meeting at least four times a year (in what are often termed “EU Summits”), the European Council acts principally as a strategic guide and driving force 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?

On December 1, 2009, the EU’s latest institutional reform endeavor—the Lisbon Treaty—came into force following its ratification by all 27 member states. The Lisbon Treaty was initially approved by EU leaders in December 2007; it is the final product of an effort begun in 2002 to reform the EU’s governing institutions and decision-making processes in order to enable an enlarged Union to function more effectively. The history of the Lisbon Treaty is replete with contentious negotiations among the member states and numerous ratification hurdles. The Lisbon Treaty evolved from the proposed EU constitutional treaty, which was rejected in French and Dutch national referendums in 2005. The future of the Lisbon Treaty was also thrown into doubt when Ireland initially rejected it in a referendum in June 2008. In a second referendum in October 2009, Irish voters approved the treaty after securing some modifications. Although all other EU member states ratified the Lisbon Treaty through their parliaments, it also faced objections in some national legislatures, which contributed to the delay in its entrance into force. The Czech Republic was the last EU member state to ratify the Lisbon Treaty in November 2009.³

The major aims of the Lisbon Treaty are to streamline EU decision-making, to give the EU a stronger and more coherent voice and identity on the world stage, and to increase democracy and transparency within the EU. To help accomplish these goals, the treaty creates two new EU leadership positions. The new President of the European Council will serve as coordinator and spokesman for the work of the 27 Heads of State or Government. This individual, elected to a once-renewable term of two-and-a-half years, will also manage relations between the EU institutions. A modified system of rotating national presidencies will continue to organize much of the work of the Council of Ministers. The treaty also creates a single representative for EU foreign and security policy to serve, essentially, as the EU’s chief diplomat.

Among other key measures, the Lisbon Treaty simplifies the EU’s qualified majority voting system and expands its use to policy areas previously subject to unanimity. In addition, the treaty increases the relative power of the European Parliament by extending the use of the “co-decision”

² There are currently 7 political groups in the European Parliament: the Group of the European People’s Party (Christian Democrats); the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament; the Group of the Alliance of Liberals and Democrats for Europe; the Group of the Greens/European Free Alliance; the European Conservatives and Reformists Group; the Confederal Group of the European United Left-Nordic Green Left; and the Europe of Freedom and Democracy Group. There are also several non-attached MEPs.

³ The Lisbon Treaty amends, rather than replaces, existing EU treaties. Despite the failure of the EU constitutional treaty, experts say the Lisbon Treaty preserves over 90% of the substance of the original treaty.

procedure to more policy areas, including agriculture and home affairs issues.⁴ It also gives national parliaments a degree of greater authority to challenge draft EU legislation and allows for the possibility of new legislative proposals based on citizen initiatives.

Why and How Is the EU Enlarging?

The EU views the enlargement process as an extraordinary opportunity to promote stability and prosperity in Europe. Since 2004, EU membership has grown from 15 to 27 countries, bringing in most states of central and eastern Europe and fulfilling an historic pledge to further the integration of the continent by peaceful means. In order to be eligible for EU membership, countries must first meet a set of established criteria, including having a functioning democracy and market economy. Observers have noted that the prospect of membership can act as an incentive for countries to adopt beneficial reforms. 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.

The EU began as the European Coal and Steel Community in 1952 with six members (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands). In 1973, Denmark, Ireland, and the United Kingdom joined what had then become known as the European Community. Greece joined in 1981, followed by Spain and Portugal in 1986. In 1995, Austria, Finland, and Sweden acceded to the present-day European Union. In 2004, the EU welcomed eight former communist countries—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 of EU expansion, some Europeans have spoken of “enlargement fatigue” and have suggested a pause in the process. The EU maintains that the enlargement door remains open. Some observers expect that Iceland may soon apply for EU membership, an effort that would likely receive relatively quick approval.

Further enlargement will likely focus on the Balkans. The EU named Croatia as an official candidate in 2004 and began accession negotiations in 2005. Macedonia was given candidate status in late 2005, but has not yet secured a start date for accession negotiations because of an ongoing dispute with Greece over the country’s official name. The remaining western Balkan states of Albania, Bosnia-Herzegovina, Kosovo, Montenegro, and Serbia are all recognized as potential EU candidates in the longer term, but their accession timetables and prospects vary.

Turkey also has a long-standing bid for EU membership. Turkey was recognized as an EU candidate in 1999 but remained in a separate category for years as it sought to comply with the EU’s political and economic criteria for membership. In 2005, the EU opened accession talks with Turkey, but these are expected to take at least a decade to complete. The EU has cautioned that negotiations with Turkey are an “open-ended process, the outcome of which cannot be guaranteed.” Observers note that some EU members and many EU citizens remain wary about Turkey’s possible accession given its large size, relatively poor economy, and Muslim culture. The status of Turkey’s membership application is a frequent source of tension between Turkey and the EU.

⁴ The Lisbon Treaty technically renames the “co-decision” procedure as the “ordinary legislative procedure.”

Does the EU Have a Foreign Policy?

The EU has a Common Foreign and Security Policy (CFSP), in which member states adopt common policies, undertake joint actions, and pursue coordinated strategies in areas in which they can reach consensus. CFSP was established in 1993; the eruption of hostilities in the Balkans in the early 1990s and the EU's limited tools for responding to the crisis convinced EU leaders that the Union had to improve its ability to act collectively in the foreign policy realm. Previous EU attempts to further such political integration had foundered for decades on member state concerns about protecting national sovereignty and different foreign policy prerogatives.

CFSP decision-making is dominated by member states and requires unanimity; all 27 member states must agree that a common EU stance on a given issue is desirable and all 27 must agree on the terms of that stance. Member states must also ensure that national policies are in line with agreed EU strategies and positions (e.g., imposing sanctions on a country). However, CFSP does not preclude individual member states pursuing their own national foreign policies or conducting their own national diplomacy.

CFSP remains a work in progress. Although many view the EU as having made considerable strides in forging common policies on a range of international issues, from the Balkans to the Middle East peace process to Iran, others argue that the credibility of CFSP too often suffers from an inability to reach consensus. The launch of the U.S.-led war in Iraq in 2003, for example, was extremely divisive among EU member states and they were unable to agree on a common EU policy position. Others note that 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.

The EU's new Lisbon Treaty seeks to bolster CFSP by increasing the EU's visibility on the world stage and making the EU a more coherent foreign policy actor. The treaty establishes a new High Representative for the Union for Foreign Affairs and Security Policy to serve essentially as the EU's chief diplomat. This new post combines into one position the former responsibilities of the Council of Ministers' High Representative for CFSP and the Commissioner for External Relations, who previously managed the European Commission's diplomatic activities and foreign aid programs. In doing so, the new position seeks to marry the EU's collective political influence with its economic power. The Lisbon Treaty also creates a new EU diplomatic corps (the European External Action Service) to support the High Representative.

Does the EU Have a Defense Policy?

Since 1999, the EU has been working to develop a Common Security and Defense Policy (CSDP), formerly known as the European Security and Defense Policy (ESDP).⁵ CSDP seeks to enhance European military capabilities, to improve the EU's ability to respond to crises, and to give the EU's common foreign policy a military backbone. The EU has created three defense decision-making bodies, has set targets for improving capabilities, and has developed a rapid reaction force and multinational "battlegroups." Such EU forces are not a standing "EU army,"

⁵ ESDP was renamed CSDP by the Lisbon Treaty.

but rather a catalogue of troops and assets drawn from existing national forces that member states can make available for EU operations.

CSDP operations focus largely on tasks such as peacekeeping, crisis management, and humanitarian assistance. CSDP missions are also often civilian, rather than military, in nature, with objectives such as police and judicial training (“rule of law”) or security sector reform. The EU is currently engaged in some 13 CSDP missions in the Balkans, Africa, Caucasus, and the Middle East, and has completed an additional 10 missions in previous years.

However, improving European military capabilities has been difficult, especially given flat or declining European defense budgets. Serious capability gaps continue to exist in strategic air- and sealift, command and control systems, intelligence, and other force multipliers. Also, a relatively low percentage of European forces are deployable for expeditionary operations. Some analysts have suggested pooling assets among several member states and the development of national niche capabilities as possible ways to help remedy European military shortfalls. In 2004, the EU established the European Defense Agency to help coordinate defense-industrial and procurement policy in an effort to stretch European defense spending farther.

What Is the Relationship of the EU to NATO?

Despite largely overlapping memberships and interests, NATO and the EU continue to struggle to establish a cooperative and complementary relationship.⁶ Since its inception, the EU has asserted that CSDP is intended to allow the EU to make decisions and conduct military operations “where NATO as a whole is not engaged,” and that CSDP is not aimed at usurping NATO’s collective defense role. The United States has supported EU efforts to develop CSDP provided that it remains tied to NATO, does not rival or duplicate NATO structures or resources, and does not weaken the transatlantic alliance. The 2003 Berlin Plus agreement, which allows EU-led military missions access to NATO assets and planning capabilities, was designed to help ensure close NATO-EU links and prevent a wasteful duplication of European defense resources. Since then, two Berlin Plus missions have been conducted in the Balkans, and NATO and the EU have sought to coordinate their activities on the ground in operations in Africa and Afghanistan.

Nevertheless, closer and more extensive NATO-EU cooperation at the political level on a range of issues—from matters of strategic importance (such as terrorism or weapons proliferation) to improving coordination of crisis management planning and defense policies—has been stymied largely by EU tensions with Turkey (in NATO but not the EU) and the ongoing dispute over the divided island of Cyprus (in the EU but not NATO).⁷ Many analysts argue that until a political settlement is reached over Cyprus, enhanced NATO-EU cooperation is unlikely. Others suggest that additional reasons exist for strains in the NATO-EU relationship, including bureaucratic

⁶ Twenty-one 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).

⁷ Turkey, a non-EU NATO member, has objected to Cyprus, which joined the EU in 2004, participating in NATO-EU meetings on the grounds that it is not a member of NATO’s Partnership for Peace (PfP) and thus does not have a security relationship with the alliance. The absence of Cyprus from PfP also hinders NATO and the EU from sharing sensitive intelligence information. In the current political climate, Cyprus essentially cannot join PfP because it would require the consent of all NATO allies, including Turkey.

rivalry and competition between the two organizations and varying views on both sides of the Atlantic regarding the future roles and missions of both NATO and the EU's CDSP.

What Is Justice and Home Affairs (JHA)?

The JHA field seeks to foster common internal security measures while protecting the fundamental rights of EU citizens and promoting the free movement of persons within the EU zone. JHA encompasses police and judicial cooperation, immigration, asylum, border controls, fighting terrorism and other cross-border crimes such as drug trafficking, and combating racism and xenophobia. For many years, however, EU efforts to harmonize policies in the JHA field were hampered by member states' concerns that such measures could infringe on their legal systems and national sovereignty. The 2001 terrorist attacks on the United States, the subsequent revelation of Al Qaeda cells in Europe, and the terrorist bombings in Madrid and London in 2004 and 2005, however, helped give new momentum to many initiatives in the JHA area. Among other measures, the EU has established a common definition of terrorism, an EU-wide arrest warrant, and new tools to strengthen external EU border controls.

The EU's new Lisbon Treaty gives the European Parliament "co-decision" power over the majority of JHA policy areas. The Treaty also makes most decisions on JHA issues in the Council of Ministers subject to qualified majority voting, rather than unanimity, in a bid to strengthen JHA further and speed EU decision-making. In practice, however, the EU will likely still seek consensus as much as possible on sensitive JHA policies. Moreover, for some issues in the JHA area, the EU has added an "emergency brake" that allows any member state to halt a measure it believes could threaten its national legal system and ultimately, to opt-out of it. Despite these safeguards, the UK and Ireland negotiated the right to opt-out of all JHA policies. The Lisbon Treaty technically renames JHA as the "Area of Freedom, Security, and Justice."

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—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 been extended partially to include trade in services, the defense of intellectual property rights, and foreign direct investment. 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 new Lisbon Treaty extends the right of "co-decision" to the European Parliament on trade agreements, giving it an enhanced role in this area. The EU also plays a leading role in the World Trade Organization (WTO).

How Do EU Countries and Citizens View the EU?

All EU member states believe that the Union magnifies their diplomatic and economic clout and brings them important political and financial benefits. Nevertheless, tensions have long existed within the EU between those members that seek an “ever closer union” through greater integration and those that prefer to keep the Union on a more intergovernmental footing in order to better guard their national sovereignty. 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 believe could allow a few large states to dominate EU decision-making. In addition, the recent rounds of EU enlargement to central and eastern Europe have brought in many new members with histories of Communism and Soviet domination. This history often colors their views on issues ranging from relations with Russia to climate change to the Middle East. At times, such differences have caused frictions with older, west European member states and have slowed EU policy-making.

The prevailing view among European citizens is likewise favorable toward the EU, and many believe 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.

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 challenges, 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 1999, although interparliamentary exchanges between the two bodies date back to 1972.

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

U.S.-EU summits occur at least once a year, with the U.S. president traditionally meeting with the president of the European Commission and the Head of State or Government of the country holding the Council of Ministers' rotating presidency. It is expected that with the Lisbon Treaty now in force, the new President of the European Council will essentially assume the role at U.S.-EU summits previously played by the rotating presidency representative. The U.S. Secretary of State's most frequent interlocutor in the EU context is the High Representative for the Union's Foreign Affairs and Security Policy. 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 Union 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?

The United States and the EU share the largest trade and investment relationship in the world. The combined U.S. and EU economies account for nearly 60% of global gross domestic product and roughly 40% of world trade. 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 reached \$2.7 trillion by the end of 2007. Historically, U.S.-EU cooperation has also been a driving force behind efforts to liberalize world trade.

Although the vast majority of the U.S.-EU economic relationship is harmonious, some tensions exist. U.S.-EU trade disputes persist over poultry, subsidies to Boeing and Airbus, hormone-treated beef, and bio-engineered food products. U.S.-EU disagreement over agricultural subsidies has also contributed to stalling the Doha Round of multilateral trade negotiations. 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 domestic values, political priorities, and regulatory frameworks. 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.

The global financial crisis and recession have also posed difficult challenges for both the United States and the EU and raised concerns about the adoption of protectionist policies. U.S. and EU leaders have sought to pursue a coordinated response to the global economic downturn through the G-20, which brings together industrialized and developing countries. The United States, the EU, and many member states have supported, for example, stimulus spending measures and agree on the need to reform regulation of the global financial system. However, analysts point out that significant divisions exist both among EU countries and between the EU and the United States over the specifics of such reforms and the degree of regulation required.

Author Contact Information

Kristin Archick
Specialist in European Affairs
karchick@crs.loc.gov, 7-2668

Derek E. Mix
Analyst in European Affairs
dmix@crs.loc.gov, 7-9116